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*see vol. 2507*  
**In The United States  
Circuit Court of Appeals  
For the Ninth Circuit**

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JOHN BARCOTT,

*Appellant,*

VS.

UNITED STATES OF AMERICA,

*Appellee.*

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**Brief of Appellant**

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APPEAL FROM THE DISTRICT COURT OF THE UNITED  
STATES FOR THE WESTERN DISTRICT OF  
WASHINGTON, SOUTHERN DIVISION

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HONORABLE CHARLES H. LEAVY, *Judge*

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and  
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# INDEX

	<i>Pages</i>
STATEMENT CONCERNING JURISDICTION	1
STATEMENT OF THE CASE.....	2
QUESTIONS INVOLVED .....	19
ASSIGNMENTS OF ERROR.....	22
ARGUMENT:	
Assignment of Error No. I .....	24
Assignment of Error No. II .....	24
Assignment of Error No. III.....	37
Assignment of Error No. IV.....	40
Assignment of Error No. V.....	46
Assignment of Error No. VI.....	48
Assignment of Error No. VII .....	51
Assignment of Error No. VIII .....	54
CONCLUSION .....	56

## AUTHORITIES CITED

### TABLE OF CASES:

<i>Braatenlien v. United States</i> , 147 F. (2d) 888, (C.C.A. 8, 1945).....	43
<i>Guilbeau v. United States</i> , 288 Fed. 731 (C.C.A. 5, 1923) .....	44
<i>Jones v. United States</i> , 164 F. (2d) 398 (C.C.A. 5, 1947) .....	47, 48
<i>Kettenbach v. United States</i> , 202 Fed. 377, (C.C.A. 9, 1913).....	43
<i>Levison v. State</i> , 54, Ala. 528.....	47
<i>Nicola v. United States</i> , 72 F. (2d) 780, (C.C.A. 3, 1934).....	31, 32, 33, 34
<i>O'Brien v. United States</i> , 51 F. (2d) 193.....	25
<i>Paschen v. United States</i> , 70 F. (2d) 491, (C.C.A. 7, 1934).....	34

	<i>Pages</i>
<i>Singer v. United States</i> , 58 Fed. (2d) 74, (C.C.A. 3, 1932).....	55
<i>State v. Whitney</i> , 254 Pac. 525 (Idaho 1927)...	38
<i>United States v. Adams Express Co.</i> , 119 Fed. 240, (Dist. Court, S. D. Iowa, E. D. 1902).....	43
<i>United States v. Allied Chemical &amp; Dye Corp.</i> , 42 Fed. Supp. 425, (Dist. Court, S. D. N. Y. 1941) .....	43
<i>United States v. Gouled</i> , 253 Fed. 239, (Dist. Court, S. D. N. Y. 1918).....	43
<i>United States v. McKay</i> , 45 Fed. Supp. 1001, (Dist. Court, E. D. Mich., S. D. 1942).....	43
<i>United States v. Pierce</i> , 245 Fed. 888.....	42

#### STATUTES:

Title 26, Sec. 145 (b), U.S.C.A.....	1
Title 28, Section 41, U.S.C.A.....	1
Title 28, Section 723 (a), U.S.C.A.....	1

#### TEXTBOOKS:

20 American Jurisprudence 667 .....	36
Wharton's Criminal Evidence, Vol. 1, Sec. 195	31
Wharton's Criminal Evidence, Vol. 1, 11th Ed., Secs. 301, 306.....	38
Wigmore, Vol. 1, 3rd Ed., Sec. 9.....	47
Wigmore, Vol. 2, 3rd Ed., Secs. 276, 278 .....	37

#### CONSTITUTION:

Sixth Amendment to Constitution of United States .....	25
---	----

#### RULES OF COURT:

1947 Cumulative Annual Pocket Part of Title 18, U.S.C.A., p. 228.....	44
Rule 7(f), Rules Criminal Procedure, U. S. Dist. Court .....	43, 44



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**STATEMENT CONCERNING JURISDICTION**

The appellant was indicted (Tr. 2) on three counts of violation of Section 145(b), Title 26, United States Code, and was convicted on all counts (Tr. 476). The jurisdiction of the United States District Court is sustained by provisions of Title 28, Section 41, of the United States Code Annotated, and the jurisdiction of this Court by the provisions of Title 28, Section 723(a), United States Code Annotated, and the rules promulgated by the Supreme Court of the United States pursuant thereto.

## STATEMENT OF THE CASE

There are three counts in the Indictment charging the defendant, John Barcott, with having wilfully and knowingly attempted to defeat and evade the payment of a large part of his income and victory tax for the years 1943, 1944 and 1945. (Tr. 2, 3, 4, 5). Each of the counts refers to a different year. The allegations are the same except as to amount.

Count No. 1 charges that the defendant "did wilfully and knowingly attempt to defeat and evade a large part of the income and victory tax due and owing by him to the United States of America for the calendar year 1943 by filing and causing to be filed \* \* \* a false and fraudulent income and victory tax return wherein he stated that his net income for said calendar year, computed on the community - property basis, was the sum of \$6,720.40 and that the amount of tax due and owing thereon was the sum of \$1,545.38, whereas, as he then and there well knew, his net income for the said calendar year, computed on the community-property basis, was the sum of \$12,406.33, derived as follows:

Dividends .....	\$ 140.00
Interest .....	141.93
Interest on bonds .....	200.00
Income from business.....	24,621.96" (Tr. 2, 3)

Count No. 2 is identical except as to amount. It is charged in Count No. 2 that the defendant's reported

income was \$5,632.57, whereas his income was \$9,926.61, which income was derived as follows:

Dividends and interest.....	\$ 818.27
Income from business.....	20,034.94 (Tr. 3, 4)

Count No. 3 charged that the defendant reported income of \$7,388.98, whereas his income was \$11,138.92, derived as follows:

Dividends and interest.....	\$ 1,258.74
Income from business.....	22,019.09 (Tr. 4, 5)

Defendant moved for a Bill of Particulars (Tr. 11); the Court granted the same and the plaintiff furnished a Bill of Particulars, enumerating the sources from which the defendant derived his income. (Tr. 17, 18). It is set forth that the sources of income were the following:

- (1) Dividends from stock holdings in Fishermen's Packing Corporation, Anacortes, Washington.
- (2) Interest on savings account in the National Bank of Washington and from a real estate and conditional sales contract.
- (3) Interest on United States Savings Bonds, Series "G."
- (4) Income from business from a restaurant business known as the "California Oyster House," 914 Pacific Avenue, Tacoma, Washington.

The Bill of Particulars in relation to Counts Nos. 2 and 3 sets forth that the income was from the same sources.



To this Indictment the defendant entered a plea of not guilty. The case proceeded to trial and the theory of the Government is clearly set forth in the opening statement to the Jury by the United States District Attorney.

“This case, when it will be—when it is finally presented to you will be classed what we term a case proven by the net worth process; that is, in finding out what a man owns at the beginning of any particular year and then checking that against what he owns at the end of that particular year, \* \* \* and the difference between the net worth at the end of the year and the net worth at the beginning of the year, is what the Government claims his income must have been.” (Tr. 63, 64).

Also reiterated in the Court’s instruction to the Jury:

“The Government therefore relies upon the fact that when an increase is shown (net worth) it has established substantially that such income was taxable income in each of the years 1943, 1944 and 1945.”

The evidence which the Government presented to convict the defendant of the charge made in the Indictment is confined entirely in the testimony of two witnesses, Nielsen (Tr. 72), and Swanson (Tr. 116). There is no claim that the defendant did not report all the dividends and interest received by him. The income tax returns made for the years 1943, 1944 and 1945 show that the defendant had reported all the dividends and interest as income. (Pltfs’ Exhibits 1, 2, 3).

Stanley Nielsen, Special Agent of the Department of Internal Revenue, testified that a local bank had informed the department that the defendant had purchased several one thousand dollar bills, and that he called upon the defendant to discuss the official assignment in reference to these bills, and that he informed the defendant that the purpose of his investigation was to determine if this money was used in black market activities and if the same was properly reported for income tax purposes. (Tr. 71, 72). The defendant offered to open the safe deposit box and show him these bills. Accordingly, they went to the safe deposit box, it was opened, and he found therein \$23,000 in cash and about \$75,000, par value, Government bonds. (Tr. 73, 74). He testified while he was inventorying the contents of the box the defendant said to him, " 'Here, Nielsen, let me give you one of these,' and pushing a package of currency containing five hundred dollars to me, and, 'You make a favorable report on this matter and just forget about the whole thing,' and I told him, 'No, Mr. Barcott, I can't do that. I must inventory this stuff,' so I continued to inventory the bonds." That the defendant approached him again and said to him, "Now, Nielsen, we are alone—only two of us, can't you take a package of this and make a favorable report on it?" (Tr. 75). That he again approached him and said to him, "I feel sick inside, let me buy you a suit of clothes, and your wife a fur coat, and you take this money

and make a favorable report on me." That the witness informed the defendant that by his action he was practically walking into jail. Objection to the testimony was overruled and a motion to withdraw it from the consideration of the Jury and to instruct the Jury to disregard it was denied. (Tr. 83).

The foregoing is the substance of the testimony of the witness Nielsen to sustain the allegations set forth in the Indictment.

The witness Washburn (Tr. 87) testified concerning interest received by the defendant from savings account and real estate and conditional sales contract, which interest was duly reported as shown by the income tax returns, on which no question is raised.

The witness Kerr (Tr. 102) testified concerning the defendant having a safe deposit box in a vault owned by him and that he entered the vault on January 28, 1946. (Exhibit No. 11).

The witness Plancich testified concerning dividends received by the defendant, which dividends were duly reported, and there was no question raised. (Tr. 104).

The witness Corbin testified (Tr. 111) that at the request of the defendant she, as Deputy Collector of Internal Revenue, prepared income tax returns for the defendant for the years 1943 and 1944; that the defendant furnished the figures, but he did not have any books with him; that he furnished her all of the necessary information to make up the income tax return.



The witness Hary Swanson (Tr. 114), Special Agent of the Department of Internal Revenue, testified that he, with Mr. Nielsen, and the defendant Barcott, went to the safe deposit box in the National Bank of Washington, to which the defendant freely gave him access, and he inventoried the contents of the box. After inventorying the contents of the box he inquired of the defendant if he had any other safe deposit box, to which the defendant replied that he did, in the Washington Building. That they thereupon proceeded to the Washington Building, opened the box for inspection, and found some business and insurance papers and nothing more. (Tr. 115). That he audited the income tax returns for 1934, 1944 and 1945, the bank accounts of the defendant, interest collected by him and dividends. That after examining all sources of information he then proceeded to determine the current income of the defendant. His whole testimony can be summarized by the following quotations:

“Q. And what method did you use in establishing this income?

A. This income was determined on the increase in net worth basis.

Q. And explain to the Court just exactly what you mean by that?

A. The net worth basis is the basis used in determining income where complete and adequate records are not maintained by the taxpayer. The

income is computed on the difference between the net worth of the taxpayer at the beginning of the year and the net worth at the end of the year, the difference constituting income, provided of course, that as far as it is able to be determined it comes from a taxable source, such as salaries, wages, dividends, interest, business income, or rents. This was done in the case of John Barcott, as his records did not appear adequate to make a complete and detailed audit as such.

Q. And what did you find—then you started your account as of December 31, 1942, is that correct?

A. Yes, or similarly, January 1, 1943.

Q. And then did you compute it for each year thereafter until December 31, 1945?

A. I did.

Q. Do you have your working figures with you there? A. Yes, I do.

Q. Will you state what you found to be the net worth, and what items composed it, as of December 31, 1942?

MR. GAGLIARDI: I'm objecting, Your Honor, unless he shows what sources he has derived this information. We ought to at least know where he got his information what our net worth was on December 31, 1942, before he draws his conclusion by saying that that's all we were worth. I'm objecting to that. (Tr. 116, 117).

\* \* \*

Q. Please state the items and what his net worth was according to your figures on December 31, 1942.

A. The net worth as of December 31, 1942, was determined to be \$57,278.56.

Q. And just explain the items and the source of your information concerning those items, so that they total up to \$57,000 some odd dollars.

A. The first item on hand was cash in the safety deposit box at the time I checked it on February 13th, of \$23,000, consisting of—

MR. GAGLIARDI: Just a minute. If Your Honor please, I would like to know the year. February 13th of what year?

THE WITNESS: 1946.

MR. GAGLIARDI: You were talking about 1942. You are talking as to value in 1942, it was determined how much Mr. Barcott was worth on January 1, 1942, by testimony of information which you got out of the box in 1946.

THE COURT: He has testified that he found his net worth in January '42 to be \$57,000 plus. (Tr. 119).

\* \* \*

THE COURT: The objection will be overruled, and exception allowed. You will have an opportunity to cross-examine as to how he arrived at his conclusion.

Q. My understanding, Mr. Swanson, is to the effect that the date you are talking about is December 31, 1942, is that correct?

A. That's right.

Q. Not January, 1942. This is December 31, 1942. A. December 31st.

Q. And the \$23,000 item of cash is the same amount of cash that you found in a safe deposit box in January of 1946, is that correct?

A. That's right. (Tr. 120).

\* \* \*

Q. You were not charged him with income of \$23,000, you are giving him the idea that he had the \$23,000 on December 31, 1942.

A. That's right, I was giving him credit for it at the beginning of the period.

Q. In other words, you are not charging him over the period at all. A. That's right.

Q. All right, now what is the next item that you have to make up this \$57,000?

A. Savings account at the National Bank of Washington, number 64787.

Q. How much does that amount to?

A. As of December 31, 1942, according to the records of the bank, there amounted to \$2,279.53. (Tr. 121).

\* \* \*

Q. And in inventorying the contents of the box you found something like \$75,000 worth war bond?

A. That's right.

Q. \$23,200. A. \$23,000.

Q. \$23,000 in cash? A. That's right.

Q. Then you examined the date of the war bonds?



A. That's right.

Q. And after you examined the date, you assumed that Mr. Barcott, all he had in that box in December 31, 1942, was \$23,000?

A. That's right.

Q. You had no other information but your own assumption? A. That's right.

Q. Then the bonds were purchased after January 1, 1943. The bonds that you inventoried were purchased after January 1, 1943?

A. No, sir, that's not quite true. We inventoried all that were in the box, some were purchased prior to that date.

Q. Some were purchased prior to that date, and some were purchased prior—after that date?

A. Yes, that's right.

Q. Those who were purchased prior to that date, you assumed that he had them before January 1, 1943?

A. We—from the issue date we determined they were purchased at a certain time, and if they were issued prior to January 1, 1943, we assumed they were purchased prior to January 1, 1943.

Q. And what he purchased after January 1, 1943, then you assumed he purchased on that time?

A. At the issue date, yes, sir.

Q. Issue date. And you assumed that he got that money from the business?

A. Yes, I had no other knowledge.

Q. You had no other knowledge, you made no other inquiry?

A. I made other inquiry, yes, sir.

Q. Where did you inquire?

A. We inquired from Mr. Barcott, he was asked numerous times after the first contact, if he had any other source of income.

Q. Just asked the sources of income?

A. That's right.

Q. Did he tell you that he had been in business since 1919?

A. That's right.

Q. That he, his wife, and his son, operated the restaurant since 1919 continuously, the California Oyster House?

A. I am not sure about the other members of his family, but he said that he had operated the restaurant—

Q. Didn't he say he and his wife and the two sons operate it?

A. He said his wife had been there part of the time.

Q. Yeah. You in determining the net worth of Mr. Barcott assumed that in January 1, 1943, he only had \$23,000 in cash, and whatever bond he had purchased prior to that time, and also the real estate and the restaurant?

A. That was all, yes.

Q. And that's purely assumption? There is nothing upon which you could base any facts?

A. Oh, yes, they were assets which were examined.

Q. Were examined?

A. Purchased at a certain date.

Q. And because they were purchased on a certain date, then you assumed they were acquired by earning after that date—prior to that date?

A. Prior to that date.

Q. And it must have been earned before the—between the first of January and the date in which they were purchased in 1943? See if I make myself clear. Any bond which he purchased during the year 1943, you assumed that was income that he received from the first of January during the year up to the date he purchased the bond.

A. That's right.

Q. You had no information whatever what asset that Mr. Barcott had prior to January 1, 1943, whether it was in cash, bond, mortgages or other property?

A. Well, that's not true.

Q. Do you have any information—?

A. We examined the savings account back to the time that he first started, then we examined the conditional sales contract back to the time he stated, then the real estate contract, and such bonds that were still in the box—the inventory date, if they were purchased prior to January 1, 1943, they were examined.

Q. But so far as pertaining to the cash in which he purchased additional bond in 1943, and additional bond in 1944 and '45, you had no information where the money came from except what you assumed that it came from the business?

A. I assumed it came from the business." (Tr. 135-139).

He further testified that in arriving at a net worth of the defendant he had examined the records in regard to income tax returns made by the defendant from 1919 to 1942; that during such period he could have earned \$89,000, and that he did not have any records for the year 1942, because in the year 1942 the taxes were forgiven, and that he did assume that was all he earned during that period and he did not have any knowledge in regard to Mr. Barcott's assets prior to his entering the business, nor did he take into consideration that during all that time the wife of the defendant and his sons worked in the restaurant. His testimony can be summarized by the following questions and answers:

"Q. And also then, you assume that when he went into business in 1919 he didn't have any money?

A. That's right, under this computation.

Q. And also you assume that Mrs. Barcott—

A. May I clarify that, just a second? I stated at the beginning that this was determined from the records of the Collector of Internal Revenue, and that is the first year for which they had a



record of a return being filed. Now, it might be that he had filed prior to that.

Q. I see, but in 1919 when he went into business, you have no knowledge of how much money he had to start in business? A. No, sir.

Q. And you did not know how much money Mrs. Barcott had? A. No, sir.

Q. And you didn't know how much Mrs. Barcott's mother left her when she died, did you?

A. No, sir. Mr. Barcott was asked for the information — rather, that information, but he never volunteered it.

Q. All of these taxes that you have given the Court and jury the benefit of knowing that were not paid, were on the assumption that Mr. Barcott had nothing else on January 1, 1943, except what you say was in the box, at that time?

A. A tax is computed on the increase of certain items.

Q. Increase during those years?

A. During those years, not—it wouldn't matter a bit if the amount was less. It's only on the increase that a man makes from the beginning of the year and the end of the year. So the amount that you start with is of little or no consequence for the purpose of determining the increase of that year.

Q. And the increase, you mean to say, the additional asset acquired during the year?

A. That's right.

Q. And where the money came from, you have no knowledge, except what you assume it came from the business?

A. We—as far as we know, it came from the business, and we had no other source to the amount during those years.

Q. You have no other knowledge—?

A. 1943, '44 and '45. No, sir, except from the dividends and interest." (Tr. 148, 149).

The foregoing is the substance of all the testimony upon which the Government relied to convict the defendant of the crime charged in the Indictment.

At the conclusion of the Government's case the defendant moved the court to dismiss the action, or in the alternative to direct the Jury to return a verdict of acquittal and to enter a judgment of acquittal against the defendant on the ground that the Government had failed to introduce sufficient evidence upon which to sustain a conviction against the defendant for the crime charged in the Indictment. (Tr. 153-165).

The defendant took the stand in his own behalf and testified that he entered the restaurant business in the year 1919; that at the time he had \$6,000 (Tr. 177); that for a period of 18 years his wife worked in the restaurant with him; that the family took their food from the restaurant and from "tips" received by his wife as a waitress; that he lived a very modest life, having a home costing \$3,100; did not drink, smoke or gamble, and never owned an automobile; that his two sons worked with him in the restaurant from time to time without pay; that he made a profit from \$7,000

to \$9,000 in a fishing boat venture in previous years. He submitted his books from 1943 to the present time showing his income and expenditures for those years. (Def's. Exs. A-1 and A-2). That he received no greater income from the restaurant than that which was reported for the years in question. (Tr. 221). That Thomas Ray was his attorney and that at the time of Mr. Ray's death, in July, 1943, defendant's books of record were in Mr. Ray's possession for the purpose of compiling State Security Compensation taxes. That after the death of Mr. Ray he was unable to recover his books. It is stipulated in the record that Mr. Ray died and that at the time of his death he had the defendant's books, and that the files and records of Mr. Ray had been lost or destroyed. It was further testified that his earnings from the business from the date he entered business in 1919 was an average of \$250.00 to \$400.00 per month, with the exception of the war years, which were greater. (Tr. 186).

Mrs. Barcott testified that she brought into the community \$6,000; that their home expenses were never any greater than \$50.00 per month after taking all of the food and provisions from the restaurant; that she received an average of not less than \$7.00 per day from tips, and that at the time of her mother's death she received the sum of \$2,700. (Tr. 200).

Robert Birch, Certified Public Accountant, testified that upon analyzing defendant's earnings from the

date he entered business his earnings should have been \$173,737.00, and that taking into account the initial investment of the defendant and his wife, the profit made upon the boat venture, and deducting living expenses, he testified that the defendant's net worth on December 31, 1942, should have been not less than \$99,733.21. (Tr. 377).

The witness Anton Barcott testified that he worked in the restaurant for several years and he received no pay; that his parents were very frugal, and that all the food for the family was furnished from the restaurant. (Tr. 324, 329).

The witness Pearl McCord testified that she worked in the restaurant and that she received an average of \$5.00 per day in tips. (Tr. 344).

The witness Marie Dascher testified that she worked in the restaurant and received an average of \$7.00 per day in tips. (Tr. 350).

During argument counsel for the prosecution stated that if people feel they can walk into a Court Room like this and walk out and get away with what this man did they do not believe in our system of Government any more. (Tr. 434). Upon objection to the prejudicial and improper argument the Court stated that, "The last remark of the counsel the Jury will disregard." (Tr. 435).

At the conclusion of the testimony the defendant

moved for judgment of acquittal, which motion the court denied and allowed an exception (Tr. 408, 409), whereupon the court instructed the Jury, exception was taken to the refusal of the court to give certain instructions and to certain instruction given by the Court, and exception allowed. The Jury returned a verdict of guilty on all three counts, motion for judgment of acquittal, or in the alternative for a new trial, was interposed and denied and exception allowed, and defendant was committed to the custody of the Attorney General of the United States, to be confined in such Institution to be designated by him for a period of ten months on each of the counts, the sentence to run concurrently, and to pay a fine of \$750.00 on each count. From the judgment and sentence this appeal is prosecuted.

## QUESTIONS INVOLVED

### I.

Where a defendant is charged with the crime of having wilfully attempted to evade the payment of income tax by failing to report all of his income derived from named and specified sources, and the evidence shows that during a specified year the defendant acquired more war bonds than could have been purchased by the earnings reported by him during that year, without any further showing, is that evidence sufficient to justify the Trial Court in submitting the case to the jury?



The Trial Court answered "yes."

## II.

Where the Indictment and the Bill of Particulars charge the accused with having committed the crime of wilful attempted evasion of payment of income tax for a particular year, which income had been derived from a named business and specified investments, and the evidence does not show that the defendant failed to report any of the income from the sources named in the Bill of Particulars, but does show that the defendant acquired more war bonds than could have been purchased with his reported income for that year, is there such a failure of proof to sustain the allegations of the Indictment, or is there such a variance between the allegations and the proof as to make it the duty of the Trial Court to take the case away from the Jury and enter a judgment of acquittal?

The Trial Court answered "no."

## III.

Where the Indictment charges the defendant with wilfully and knowingly evading the payment of income tax on income derived and received from specified sources and the evidence introduced in support thereof shows that the defendant during the taxable year had acquired assets greater than the reported income, without further showing the sources from where such funds were derived, is said showing sufficient to make out a *prima facie* case upon which to sustain a

verdict of guilt and place upon the defendant the burden of proving that such other assets were acquired and purchased with funds derived from sources other than current income?

The Trial Court answered "yes."

#### IV.

Where evidence is introduced to show that at the time the defendant was being investigated for several different crimes he made an offer of bribe to the investigating officer, can such evidence of attempted bribery be introduced into the case on the theory that it shows consciousness of guilt of the crime for which he is subsequently charged?

The Trial Court answered "yes."

#### V.

Is the fact that the defendant was the owner of a safe deposit box and that he entered said safe deposit box two weeks before the agent examined the same, without any showing that the defendant had either taken or placed anything in the box, admissible evidence against the defendant to support the crime for which he is being tried?

The Trial Court answered "yes."

#### VI.

Where the United States Attorney appealed to the passion and prejudice of the jury by requesting conviction of the defendant on the theory that if they

failed to convict they are not believers in our present system of Government, is a mere statement from the Trial Court telling the jury to disregard the last remark sufficient to cure the error and safeguard the defendant from the prejudice?

The Trial Court answered "yes."

## ASSIGNMENTS OF ERROR

### I

The Court erred in disallowing the defendant's motions, all going to the sufficiency of the evidence:

- (a) In denying defendant's motion for judgment of acquittal at the conclusion of respondent's case. (Tr. 153-165).
- (b) In denying defendant's motion for judgment of acquittal at the conclusion of all evidence. (Tr. 408-409).
- (c) In denying defendant's motion for judgment of acquittal, or in the alternative for a new trial. (Tr. 458-468).

### II

The Court erred in overruling defendant's objections to the witness Swanson's testimony pertaining to defendant's net worth as of December 31, 1942, as said witness's conclusion in this regard is based only on an examination of assets made in 1946, from which he makes general assumptions. (Tr. 117-119).

## III

The Court erred in denying defendant's motion to strike the testimony of the witness Nielsen purporting to be a bribe (Tr. 76-77), where the predicate to said testimony showed that defendant was being questioned relative to certain bank notes and was being investigated for several different crimes.

## IV

The Court erred in failing to limit the prosecution to a showing that unreported income, if any, was derived from the sources set forth in the Bill of Particulars. (Tr. 166-171).

## V

The Court erred in allowing Exhibit No. 11 pertaining to defendant's entry into a safe deposit box to be admitted in evidence. (Tr. 104).

## VI

The Court erred in failing to give defendant's requested Instruction No. 2, and thereby failed to instruct the Jury that they must find that the war bonds purchased by the defendant were acquired with net income derived by the defendant from the sources set forth in the Bill of Particulars. (Tr. 29-32).

## VII

The Court erred in instructing the Jury that the defendant could be convicted if it were shown to them that the defendant purchased war bonds in excess of his reported income for a taxable year. (Tr. 450-451).

## VIII

Prejudicial error which could not be cured by an instruction from the Court to the Jury to disregard counsel's remark was committed by counsel for the prosecution when he in substance told the Jury that a failure to convict would indicate they did not believe in our system of Government any longer.

## ARGUMENT

## ASSIGNMENT OF ERROR NO. I

*The Court erred in disallowing the defendant's motions, all going to the sufficiency of the evidence:*

- (a) *In denying defendant's motion for judgment of acquittal at the conclusion of respondent's case. (Tr. 153-165).*
- (b) *In denying defendant's motion for judgment of acquittal at the conclusion of all evidence. (Tr. 408-409).*
- (c) *In denying defendant's motion for judgment of acquittal, or in the alternative for a new trial. (Tr. 458-468).*

## ASSIGNMENT OF ERROR NO. II

*The Court erred in overruling defendant's objections to the witness Swanson's testimony pertaining to defendant's net worth as of December 31, 1942, as said witness's conclusion in this regard is based only on an examination of assets made in 1946, from which he makes general assumptions. (Tr. 117-119).*



As the argument on the sufficiency of the evidence is so interrelated with the testimony of the witness Swanson, Assignments of Errors Nos. I and II are discussed together.

Although the transcript of record in this case is somewhat lengthy, the issues involved are relatively simple. Defendant is charged with attempted income tax evasion. The Indictment and Bill of Particulars set out wherein he purportedly failed to report his true income and in what amounts. Defendant is apprised of the charges as particularized and enters a plea of not guilty.

The Sixth Amendment to the Constitution of the United States provides as follows:

“In all criminal prosecution the accused shall enjoy the right \* \* \* to be informed of the nature and cause of the accusation; \* \* \*”

Relying on the Constitution Amendment, he expected the Government to confine itself to the charge and to prove a substantial amount of evasion before he was even called on to utter a single word. *O'Brien v. United States*, 51 F. (2d) 193.

The prosecution in substance proved that defendant purchased U. S. War Bonds in excess of his income and therefore assumed that the money for said purchase was earned during the same year; then basing one assumption on another, assumes that the money was earned from defendant's restaurant business.

The entire case, if any there be, is made out by the prosecution's witness Swanson, as is clearly stated by counsel for the prosecution:

"Now as far as our case is concerned, it is all contained in one witness, and that is Mr. Swanson, here." (Tr. 415).

An examination of Swanson's testimony reveals that in the year 1946 he made an inventory of such of the defendant's assets as were visible to him. Those assets which were shown to have been acquired in 1945 were deducted from the total figure. Then those which indicated acquisition in 1944 were again deducted. Following this procedure once more for the year 1943, the witness arrived at a figure which he called "net worth" as of December 31, 1942. Asked what method he used in establishing the defendant's income, he answered as follows:

"This income was determined on the increase in net worth basis." (Tr. 116).

Defendant objected to a calculation of net worth on this basis. (Tr. 119). The Court overruled the objection, saying:

"I don't really want an argument. Now I understand the position you take, and I am overruling your objection and allowing you an exception, so we will get along." (Tr. 119).

He then testified defendant's net worth as of December 31, 1942, was \$57,278.56. (Tr. 119).

The witness could not find any unreported income from the restaurant business from an examination of defendant's bank account. Pertaining to the restaurant bank account he testified as follows:

"Q. How much did you credit him there?

A. That was estimated at a thousand dollars.

Q. And how do you estimate it at a thousand dollars, and tell the jury why you estimated it?

A. That was an average monthly balance. The reason it was taken at a thousand dollars, it remained at an average figure like that, such as—through the entire period. It showed no accumulations and no large disappearance. Just a general business account." (Tr. 121).

Referring to the year 1943 Swanson again states that the restaurant bank account ran at around \$1,000.00, indicating no unusual or unreported income. (Tr. 125). There was a purchase of \$20,750 in bonds during this year and Swanson calculated a net worth increase of \$21,928.10. (Tr. 127). Of course defendant reported \$6,720.40, which was one-half of the community earnings, making a total reported of \$13,440.80 for the community.

In 1944, again no increased value or unusual or unreported deposits can be found in the bank account. (Tr. 128). Bonds in the sum of \$19,000 were purchased (Tr. 128) and net worth purportedly increased \$18,256.09. (Tr. 129). In this year there was a total community reported income of \$11,265.14.

Bonds in the sum of \$20,000 were purchased in 1945 (Tr. 129) and there was a purported increase in net worth of approximately \$19,000. The checking account still shows no unreported earnings from the restaurant. (Tr. 129). In this year \$14,777.96 was reported by husband and wife. (Tr. 5).

The witness is quite frank in stating his calculations are not based on facts but rather on assumptions. It was an assumption that defendant had only \$23,000 in cash on December 31, 1942.

“Q. And after you examined the date, you assumed that Mr. Barcott, all he had in that box in December 31, 1942, was \$23,000.

A. That's right.

Q. You had no other information but your own assumption?

A. That's right.” (Tr. 136).

He also assumed that the money was earned the same year that bonds were purchased and that it came from unreported earnings of the restaurant.

“Q. And what he purchased after January 1, 1943, then you assumed he purchased on that time?

A. At the issue date, yes, sir.

Q. Issue date. And you assumed that he got that money from business?

A. Yes, I had no other knowledge.” (Tr. 136).

Again he states:

“Q. And it must have been earned before the —between the first of January and the date in which they were purchased in 1943? See if I make myself clear. Any bond which he purchased during the year 1943, you assumed that was income that he received from the first of January during the year up to the date he purchased the bond?

A. That’s right.” (Tr. 138).  
And further in this regard:

“Q. But so far as pertaining to the cash in which he purchased additional bond in 1943, and additional bond in 1944 and ’45, you had no information where the money came from except what you assumed that it came from the business?

A. I assumed it came from the business.”  
(Tr. 138, 139).

Swanson then testified that defendant could have earned \$89,291.09 up to the end of 1942, according to his calculations. (Tr. 143). Then he takes \$36,000 from this figure, assuming again that defendant’s living expenses were \$125.00 per month. (Tr. 144).

He also assumes defendant was penniless when he commenced business in 1919, and that defendant’s wife had no money:

“Q. And also then, you assume that when he went into business in 1919 he didn’t have any money?

A. That’s right, under this computation.



Q. I see, but in 1919 when he went into business, you have no knowledge of how much money he had to start in business?

A. No, sir.

Q. And you did not know how much money Mrs. Barcott had?

A. No sir." (Tr. 148).

In explaining his theory of arriving at unreported income the witness with utmost candor shows he was not interested in anchoring his basis for "net worth" on a known, proven or admitted net worth foundation, but that he was guided by what appeared to him as an increase during a specific year. He says as follows:

"It's only on the increase that a man makes from the beginning of the year and the end of the year. So the amount that you start with is of little or no consequence for the purpose of determining the increase of that year." (Tr. 149, 149).

That's the testimony which "made out" plaintiff's case. That's what supposedly proved we had unreported income for the years in question; that we cheated the Government by withholding profits from our restaurant business. It is on this testimony that appellant today stands convicted.

The following is a quotation of elementary law with which we are all familiar:

"Throughout all criminal trials, the burden rests upon the prosecution to prove the guilt of

the accused, or, in other words, to prove each and every material element of the offense charged, beyond a reasonable doubt, and this burden never shifts from the prosecution." Wharton's Criminal Evidence, Vol. 1, Sec. 195, p. 207.

Swanson's testimony shows only that our purchase of U. S. War Bonds during war years exceeded our income for the years in which the bonds were purchased. There is not a scintilla of evidence from which it can be deduced that the bonds were purchased with income from the current year, much less that any income was not reported for taxation purposes.

The law is well established in our federal system of jurisprudence that facts which are equally consistent with innocence as with guilt cannot serve as the basis of a criminal prosecution. The rule is set out as follows in *Nicola v. United States*, 72 F. (2d) 780 at page 786:

"Unless there is substantial evidence of facts which exclude every other hypothesis but that of guilt, it is the duty of the trial court to instruct the jury to return a verdict for the accused; and where all the substantial evidence is as consistent with innocence as with guilt, it is the duty of the appellate court to reverse a judgment of conviction. *Union Pacific Coal Co. v. United States*, 173 F. 737, 740 (C.C.A. 8); *Wiener v. United States*, 282 F. 799, 801 (C.C.A. 3); *Yusem v. United States*, 8 F. (2d) 6 (C.C.A. 3); *Ridenour v. United States*, 14 F. (2d) 888 (C.C.A. 3)."

Is the purchase of war bonds in a greater amount than is one's income for a specific year inconsistent

with any other hypothesis but that of guilt? Is it not reasonable to buy war bonds from savings previously acquired? Is it not just as consistent with innocence that the purchase of these bonds was partly with current earnings and partly with savings? The answers are self-evident and show the ephemeral position taken by the prosecution in this case. Let us, just for a moment, image how many other American citizens, who in the hour of our nation's greatest crisis, dipped deeply into their savings, far in excess of their current incomes, to contribute to their country's cause. The number of prosecutions possible would reach fantastic proportions. Does the law contemplate that such people are *prima facie* criminals; and that proof of purchase exceeding current income is sufficient to make out a criminal case against them?

It seems to us that our Constitution still has meaning, force and effect and that we have not yet stooped to the level, and that the time has not yet arrived, where a citizen must prove his innocence in an American court.

We have examined all of the reported cases and have been unable to find a single case in which it was even attempted to prove guilt on the basis of increase in assets in excess of reported income for a current year.

In the case of *Nicola v. United States*, 72 F. (2d) 780 (C.C.A. 3, 1934) defendant, who was the president of two companies known as the Miller Company

and the Point Company, was indicted for failing to report profit on a \$675,000 sale, which sale was made through the Point Company and was reported by said Point Company. The Government's testimony showed that negotiations and sale were conducted on the part of the Miller Company by its directors, two meetings being held, the first one at the Miller Company and the later one at the Point Company. As the Court remarked at page 785:

"This testimony was, of course, a circumstance which was properly in the case, but it had no probative value. The purpose of it was to show that the defendant was not only instrumental in effecting the sale, but that he did it for himself personally and not for, and as president of, the Point Company. Either might have been true, but it is significant that the last meeting, where the sale was consummated and final 90 per cent. of the purchase price, \$607,000, was paid, was held in the building of the Point Company, rather than at the office of some one of the defendant's other companies which admittedly had no connection with this transaction." *Nicola v. United States*, 72 F. (2d) 780, p. 785.

The Circuit Court applied the rule that the transaction was as consistent with innocence as it was with guilt:

"Before the jury could find the defendant guilty, the government had to establish beyond a reasonable doubt that the defendant had not made the allotment when the negotiations for the sale actually began. The defendant did not have to prove himself innocent by showing that he had made the allotment. He could stand mute until the government had established his failure thus

to make the allotment beyond a reasonable doubt.”  
*Nicola v. United States*, 72 F. (2d) 780, p. 788.

In *Paschen v. United States*, 70 F. (2d) 491 (C.C.A. 7, 1934) the figures from a very large bank account which defendant maintained under an assumed name were introduced in evidence as proof of income during the current year which he failed to report. The Court very properly reached the conclusion that this bank account of itself, without some evidence as to where the money came from and that it was earned in the taxable year, could not be used to show income tax evasion. The specific language used by the Court in this regard is as follows:

“The Anderson account was as much Paschen’s own account as if it had been carried in his own name. About this there is no controversy. But as to the unidentified balance appearing to have been deposited in the Anderson account during that year, we believe it involves too much of speculation to admit of indulgence in the presumption that, because a few of the items making up the large Anderson account were shown to have been of commercial accounts not included in the tax return, it therefore follows that the large unidentified balance of deposits in the account represents also commercial accruals during the year, not included in the tax return. This contention of the Government cannot be allowed.” *Paschen v. United States*, 70 F. (2d) 491, p. 497.

The only logical conclusion which we can reach from the foregoing analysis of the evidence and from the authorities cited is that the defendant purchased war bonds in excess of reported income for a given year,



from which it is impossible to deduce that the purchase of bonds was made from unreported earnings of the taxable year in question, much less that said purchases are not consistent with any theory but guilt.

### THE WITNESS SWANSON'S TESTIMONY AS TO DEFENDANT'S NET WORTH HAS NO BASIS IN FACT

Assuming the Government had pleaded net worth as its basis for prosecution, and further assuming that the theory is sufficient to permit conviction for crime, has the prosecution submitted any evidence upon which the defendant's increase in net worth during the specified years can be determined?

It is to be remembered that the witness Swanson first saw defendant in 1946 and he made an attempt to figure out defendant's net worth as of December 31, 1942, from what assets he examined in 1946.

It seems that the basic figure, the one upon which subsequent calculations are going to be made, must be positively established before any calculations of subsequent net worth could be made. This is a matter of plain logic. If the basic figure is erroneous or improperly determined the entire structure fails.

We must again call the Court's attention to the fact that there is no testimony in this case which even attempts to show defendant's net worth as of December 31, 1942, except on assumption made by a man from assets he examined more than three years later. In

reaching his conclusion, the witness states he does not know how much cash the defendant may have had in December of 1942. The witness does not consider what cash defendant had when he commenced business or how much his wife brought into the community. In other words, defendant's basic net worth as of December 31, 1942, is based only on speculation, surmise and assumption.

Our courts of law have not arrived at the point where they will admit as competent evidence opinions and conclusions which are based on incomplete knowledge of the facts, on assumption, and on conjecture. As is stated in 20 Am. Jur., page 667:

"It is necessary, however, that the facts upon which the expert bases his opinion or conclusion permit reasonably accurate conclusions as distinguished from mere guess or conjecture."

To sustain our contention that defendant's net worth as of December 31, 1942, was not established, the preceding analysis of Swanson's testimony seems ample in this regard. By Swanson's own statement given in explanation, wherein he said in substance that he looks only to the year to year increase of visible assets and doesn't care what a man may have accumulated over a long period of years or how earlier obtained assets may have been converted into other assets so as to subsequently appear in different form, must conclusively show to this Court the inadmissibility of such evidence.

## ASSIGNMENT OF ERROR NO. III

*The Court erred in denying defendant's motion to strike the testimony of the witness Nielsen purporting to be a bribe (Tr. 76-77), where the predicate to said testimony showed that defendant was being questioned relative to certain bank notes and was being investigated for several different crimes.*

An analysis of the evidence reveals defendant was not convicted because there was any evidence of his wrongdoing, but in fact he was found guilty by reason of the introduction of highly prejudicial evidence which had no bearing on the issues, consisting principally of the witness Nielsen's testimony pertaining to an attempted bribe.

This evidence was not admissible because no causal connection could be made between the purported offer of bribe and the crime with which defendant was ultimately charged.

Evidence of attempted bribery, if admissible at all as a collateral matter to the prosecution for another offense, can only be offered for the purpose of showing a consciousness of guilt.

Wigmore classes it as "Conduct Evidencing a Weak Cause" and places it in the same category as flight. Wigmore, Sections 276 and 278, Volume 2, 3rd Edition. Wharton classes both attempts to bribe and flight as "Conduct of the Defendant Subsequent to

Act." Sections 301 and 306, Volume 1, Wharton's Criminal Evidence, 11th Edition. Wharton states as follows:

"Flight because of one crime is not admissible in evidence as guilt in another." Section 301.

If there is going to be a showing of consciousness of guilt it seems apparent that if an offer of bribe were made to atone for a different crime than the one for which defendant is being prosecuted, the introduction of such evidence is without the issues and would be most prejudicial, as it introduces evidence concerning a crime with which defendant is not charged. In the case of flight, if defendant ran away to avoid prosecution for one crime and was prosecuted for another, the evidence of flight is not competent.

In the case of *State v. Whitney*, 254 Pac. 525, (Idaho 1927) evidence of flight was held prejudicial where it could not be shown that the defendant was fleeing from the crime for which he was subsequently charged. The Court said as follows:

"Flight in respect to another and different offense is not to be considered as evidence of the guilt of an offense from which there was no flight. 16 C. J. Sec. 1066, pp. 552, 553; *People v. Vidal*, 121 Cal. 221, 53 P. 558. It appears from the state's evidence that appellant was not conscious of guilt of the crime of obtaining money by false pretenses, but was conscious of guilt of having left the state with an automobile of which he was not the owner." *State v. Whitney*, 254 P. 525, p. 527.

In our case, the first time the witness Nielsen met the defendant he informed the defendant as follows:

“I told Mr. Barcott the purpose of investigating such transactions was to determine if the money was used in black market activities, and if the money was properly reported for income tax purposes.” (Tr. 72).

On cross-examination he admitted that he told defendant he was investigating the large bills with reference to Internal Revenue matters, black market or some similar matter. (Tr. 79). Defendant's testimony is that nothing was said to him about income taxes. (Tr. 228). He didn't know why he was being investigated on that first visit. (Tr. 287).

Assuming the truth of the agent's testimony, as we must in this argument, how can any living person say, that if a bribe was actually offered that it was to avoid prosecution on an income tax evasion charge? How can any court say that it was not offered to atone for illicit black market activities? It could have been for either crime, or even some other Internal Revenue matter.

It is submitted that under the predicate laid for the admission of this testimony the original objection to its admission should have been sustained. ( Tr. 75). In any event, the motion to strike it and instruct the Jury to disregard it should have been granted. (Tr. 77).

Following our argument in support of judgment of



acquittal, or in the alternative for a new trial, the court's misapprehension as to the testimony is clearly indicated in its following statement:

"I cannot recall a word of testimony by the Internal Revenue agents that they ever stated to the defendant that they were investigating him for black market activities. (Tr. 470).

The second argument against the admissibility of this testimony is that no *corpus delicti* was ever established in the case. Of course the order of proof is discretionary with the Trial Court. The argument on this point presents a moot question at this time as the failure to prove the basic elements of the crime, as alleged, automatically called for a judgment of acquittal.

The ultimate result is that the case went to the Jury without proof of unreported income in a substantial amount as alleged, and the inadmissible evidence of bribery is what drove home a conviction for the prosecution.

#### ASSIGNMENT OF ERROR NO. IV

*The Court erred in failing to limit the prosecution to a showing that unreported income, if any, was derived from the sources set forth in the Bill of Particulars. (166-171).*

In this case defendant was furnished with a Bill of Particulars wherein the prosecution enumerated the sources from which they claimed he received unre-

ported income. (Tr. 17). From what has already been said, it is apparent that there was no showing that unreported income, if any there was, came from any of the enumerated sources.

Proof as to failure to report sufficiently for interest and dividends was totally lacking, so sources listed for these items are not material. We are then confronted with the sole question of whether appellant received unreported income from the restaurant known as the California Oyster House.

The witness Swanson repeatedly admitted he didn't know from what sources the money came for bond purchase, always assuming it was from the restaurant.

When no proof was offered that defendant failed to report all of his income from the restaurant business our various motions for judgments of dismissal were made. The Court denied these motions. The Court was of the opinion that a Bill of Particulars does not have the efficacy that it once had in our system of jurisprudence. The Court said as follows:

"I might suggest to counsel that in the earlier days of the practice of criminal law, the office of a bill of particulars in the Federal Courts was more strictly construed than it is under the new rules of civil procedure. The Government is not required to prove the shortage in the return was the exact sum that was set forth." (Tr. 170).

We agree with the Court's statement that the prose-

cution need not prove the exact amount alleged in the bill, so long as it is substantial, but that is not the question. Our problem is a total lack of proof indicating failure to report from the source particularized. We submit, on the basis of the following authorities, that the Trial Court was in error when it stated that under the new rules a Bill of Particulars has lost its efficacy and that it can be disregarded, once it is given.

In the case of *United States v. Pierce*, 245 Fed. 888 at page 890, the following language is used:

“When the charges of an indictment are so general that they do not advise the defendant of the specific acts of which he is accused, the court may direct that a bill of particulars be furnished him so that he may properly prepare his defense. *Kettenbach v. United States*, 202 Fed. 377, 382, 120 C.C.A. 505. The granting or refusal of the bill of particulars rests in the sound discretion of the court. *Rosen v. United States*, 161 U. S. 29, 35, 16 Sup. Ct. 434, 480, 40 L. Ed. 606; *Breese v. United States*, 106 Fed. 680, 682, 45 C.C.A. 535. When a bill of particulars is once made and served, ‘it concludes the rights of all parties who are to be affected by it; and he who has furnished a bill of particulars under it must be confined to the particulars he has specified, as closely and effectually as if they constituted essential allegations in a special declaration.’ *Commonwealth v. Giles*, 1 Gray (Mass.) 466, cited and approved in *Dunlop v. United States*, 165 U. S. 486, 491, 17 Sup. Ct. 375, 41 L. Ed. 799. In *United States v. Adams Express Co.* (D.C.) 119 Fed. 240, it is said:

“ ‘The office of a bill of particulars is to advise the court, or more particularly the defendant, of what facts, more or less in detail, he will be re-

quired to meet, and the court will limit the government in its evidence to those facts set forth in the bill of particulars.' ”

The following cases are all in accord with the above mentioned rule of law and specifically set forth that in the trial of the case the Court will limit the Government to its evidence to those facts set forth in the Bill of Particulars.

*United States v. Adams Express Co.*, (Dist. Court, S. D. Iowa, E.D. 1902), 119 Fed. 240.

*Kettenbach v. United States* (C.C.A. 9, 1913), 202 Fed. 377.

*Braatenlien v. United States* (C.C.A. 8, 1945), 147 F. (2d) 888.

*United States v. McKay* (Dist. Court. E. D. Mich., S. D. 1942), 45 Fed. Supp. 1001.

*United States v. Gouled* (Dist. Court, S. D. N. Y. 1918), 253 Fed. 239.

*United States v. Allied Chemical & Dye Corp.* (Dist. Court, S.D. N.Y. 1941), 42 Fed. Supp. 425.

With all due respect to the opinion of the learned Trial Court, we have found nothing which indicates that the rule pertaining to the office of the Bill of Particulars is in any wise different than it was at the time when the above mentioned cases determined that the Government was bound and restricted by its Bill of Particulars. Rule 7 (f) of Criminal Procedure provides as follows:

"The court for cause may direct the filing of a bill of particulars. A motion for a bill of particulars may be made only within ten days after arraignment or at such other time before or after arraignment as may be prescribed by rule or order. A bill of particulars may be amended at any time subject to such conditions as justice requires."

At page 228 of the 1947 Cumulative Annual Pocket Part of Title 18 of the U. S. Code Annotated, the following note of Advisory Committee on Rules appears:

*"Note to Subdivision (f).* This rule is substantially a restatement of existing law on bills of particulars."

We are unable to find any authority, modern or otherwise, which permits the Trial Court to disregard the Bill of Particulars, once given. To allow the Government to prove its case by going outside the Indictment as limited by the Bill of Particulars results in a fatal variance between the pleading and the proof, which entitles the defendant to a judgment of acquittal.

In *Guilbeau v. United States* (C.C.A. 5, 1923), 288 Fed. 731, the defendant was charged with the sale of morphine sulphate, and the evidence introduced showed a sale of morphine hydrochloride. The Court said at page 732 of the decision as follows:

"We are of opinion that the variance was material. Morphine is a derivative of opium. According to the evidence, morphine sulphate is a compound which contains morphine and sulphuric



acid, while morphine hydrochloride is a compound which contains morphine and a radical combined with a chloride. The description of one of the compounds in which morphine is a constituent element excludes all other compounds, and must be proved as laid, even though the indictment might have used more general terms. *United States v. Hardyman*, 13 Pet. 176, 10 L. Ed. 113; *Naftzger v. United States*, 200 Fed. 494, 118 C.C.A. 598; 1 Bishop's New Criminal Procedure, Sec. 488; 1 Wharton's Criminal Evidence, Sec. 121; *Fulford v. State*, 50 Ga. 591; *Robinson v. States*, 60 Tex. Cr. R. 592, 132 S. W. 944. The averment is one of substance, *Jin Fuey Moy v. United States*, 254 U. S. 189, 41 Sup. Ct. 98, 65 L. Ed. 214; and the variance is not cured by the Act of February 26, 1919, 40 Stat. 1181 (Comp. St. Ann. Supp. 1919, Sec. 1246), Ex parte Bain, 121 U. S. 1, 7 Sup. Ct. 781, 30 L. Ed. 849.

"The defendant was put on notice by the indictment that the charge against her was the unlawful sale of a particular compound, and a conviction cannot be sustained upon proof of a different compound than that charged. If the rule against a material variance be considered technical, yet it is sound, because it is based upon the constitutional guaranty that an accused shall be informed of the nature and cause of the accusation against him, and only by adhering to it can the danger of misleading a defendant be avoided."

On the basis of the foregoing authorities, which set out the general rule, it would seem to us that the prosecution would not have been permitted to introduce evidence pertaining to unreported income received by the defendant from a gambling venture, fishing venture, barber shop, clothing store, or other possible sources.

How much worse the evil becomes when the prosecution attempts to show unreported income generally, making it utterly impossible for the defendant to know where or how to defend, merely assuming that it came from the particularized source. The assumption gives us nothing upon which we can base an answer.

To come into Court with generalities, possibilities and assumptions upon which the Jury is allowed to speculate violates the rules hereinbefore announced relative to Bills of Particulars. The case was not proved and judgment of acquittal should have been ordered either at the close of plaintiff's case, at the close of all evidence, or after verdict of the Jury.

#### ASSIGNMENT OF ERROR NO. V

*The Court erred in allowing Exhibit No. 11 pertaining to defendant's entry into a safe deposit box to be admitted in evidence. (Tr. 104).*

The witness Nielsen's testimony in substance is that on January 28, 1946, he questioned the defendant concerning certain bills which defendant stated he had in a safe deposit box. (Tr. 71). Defendant volunteered to show them to Nielsen and they went to the box for this purpose. (Tr. 72). *There is nothing in Nielsen's testimony to show that defendant was questioned as to any other assets or concerning any other box, the purpose here being only to identify the bank notes.*

On February 13th when Nielsen and Swanson made an inventory of the contents of the original box they asked about other boxes and defendant informed them that he had another in the Washington Building which he allowed them to examine. Nothing was found therein except business papers. (Tr. 114-115).

The witness Kerr was called to show that defendant had entered the Washington Building safe deposit box on January 13th. Exhibit No. 11 was offered for this purpose and admitted over defendant's objection. (Tr. 103-104). It is defendant's contention that this evidence was erroneously admitted.

Wigmore in Volume 1, Sec. 9, p. 289 (3rd Edition), states that the following rule is axiomatic:

"None but facts having rational probative value are admissible."

It directly proves only one fact, namely, that the defendant entered his own safe deposit box on January 13, 1946, which fact has no probative value.

As was said as early as 1875 in *Levison v. State*, 54 Ala. 528:

"The rule is clear and well-defined that facts and circumstances which when proved are incapable of affording any reasonable presumption or inference in regard to the material fact or inquiry involved are not admissible as evidence."

In the case of *Jones v. United States* (C.C. A. 5, 1947) 164, Fed. (2d) 398, the court granted a new trial and said as follows:

“\* \* \* it was of the greatest importance to a just and fair trial that defendant be protected from prejudice arising out of other matters not germane to the trial, and that his defense, his reasons for not returning the income until 1945 and for the other things that he had done, he fully and fairly submitted to the jury.

“Instead of being tried in this way, the prosecution was allowed, without adequate check or curative action, to bring into the cause collateral matters which they deemed would be, and which were, damaging to the defendant.” *Jones v. United States*, 164 Fed. (2d) 398, p. 400.

Only one conclusion can be reached regarding this evidence, namely, that it was injected into the case for the sole purpose of prejudicing the minds of the Jury against the defendant. This conclusion is strongly supported by argument of counsel to the Jury. (Tr. 417, 420, 432, 433).

#### ASSIGNMENT OF ERROR NO. VI

*The Court erred in failing to give defendant's requested Instruction No. 2, and thereby failed to instruct the Jury that they must find that the war bonds purchased by the defendant were acquired with net income derived by the defendant from sources set forth in the Bill of Particulars. (Tr. 29-32).*

The Court failed to give portions of defendant's Instruction No. 2, as indicated by the Court's remarks thereon:

“You are instructed that the prosecution relies upon what has been referred to by the Govern-

ment's witness as the 'net worth' of the defendant on a certain date; that is, that the defendant's 'net worth' or that the total assets owned by the defendant on December 31, 1942, were of a stated amount, and that between January 1, 1943, and the 31st day of December, 1943, his assets or 'net worth' had increased to an amount over and above what he reported was his net income for that year; likewise, the prosecution contends that his net worth on the 1st day of January, 1944, was a stated amount, and that at the end of that year his 'net worth' or assets had increased to an amount greatly in excess of the amount which he reported was his net income for the year. The same contention is made for the year 1945.

Given in substance.

You are instructed that the prosecution must prove to you, beyond all reasonable doubt, the following facts:

- (a) That the defendant on December 31, 1942, did not own or possess any greater amount of assets or 'net worth' than that which the prosecution claims the defendant owned on that date.

Refused.

- (b) That between the 1st day of January, 1943, and the 31st day of December of that year, the assets or 'net worth' of the defendant increased substantially to an amount in excess of what he reported was his net income for that year.

Given in substance.

- (c) That the assets purchased for the year 1943 were purchased and acquired with net income of the defendant derived from the following sources:

Refused.



1. Dividends from the Fishermen's Packing Corporation of Anacortes, Washington;

2. Interest from savings accounts in the National Bank of Washington, Tacoma, Washington, from a real estate contract and personal property conditional sales contract in which Antone Barcott was the purchaser;

3. Interest on bonds from U. S. Savings Bonds, Series G;

4. Net income from his business known as the California Oyster House, 940 Pacific Avenue, Tacoma, Washington, and from no other sources.

- (d) That the defendant wilfully and knowingly, for the purpose of evading a large amount of tax, did file or cause to be filed with the Collector of Internal Revenue a false and fraudulent income tax and victory tax return wherein he stated that his net income for that year was substantially less than the net income of the defendant.

The same rule of law applies for the calendar years 1944 and 1945.

A 'substantial amount' means an amount substantially in excess of what the defendant actually paid.

Unless the Government has proven to you, beyond all reasonable doubt, the foregoing facts, it is your duty to acquit the defendant.

Refused." (Tr. 30, 31, 32).

The defendant excepted to this failure to instruct. (Tr. 411). By failing to give Section (c) of this instruction the Jury was allowed to convict the defendant without proof that unreported income, if any, was derived from the sources enumerated in the Bill of Particulars. The field has been thrown wide open to the Jury. Unreported income from any source whatsoever is deemed sufficient. The defendant has been trapped by being led to believe that he would come into Court and defend on certain specified matters, and then being faced with a conviction concerning matters about which he was never informed.

Our argument concerning the fourth Assignment of Error pertaining to Bills of Particulars is also appropriate to this Assignment of Error.

## ASSIGNMENT OF ERROR NO. VII

*The Court erred in instructing the Jury that the defendant could be convicted if it were shown to them that the defendant purchased war bonds in excess of his reported income for a taxable year. (Tr. 450-451).*

The Court gave the following instruction to the Jury:

“It calculated the net worth of the defendant at the close of the tax year of 1942, and the beginning of the tax year 1943, and then, calculating from that basis, as a net worth, at the close of each of the succeeding three years, it charges the defendant with earnings as evidenced by the in-

crease in his net worth for each of these years. The Government therefore relies upon the fact that when such an increase is shown, it has established circumstantially that such income was taxable income and was acquired by the defendant in each of the years 1943, '44 and '45.

"Now an essential element of the offense herein is that the defendant's taxable income was greater than that which he reported. If such fact is not proven, then you would find the defendant not guilty.

"If you find from the evidence that the increased net worth of the defendant in the years in question here measured the taxable income of the defendant in a substantial amount over that reported by the Collector—by him to the Collector of Internal Revenue, such fact would be one of the essential elements in the charge which the Government makes. You would then consider it together with all of the other facts and circumstances given in evidence in this case, and then determine whether his actual taxable earnings during the years '43, '44 and '45, are established by the evidence to your satisfaction beyond a reasonable doubt when measured by the net worth at the beginning and ending of the year." (Tr. 450-451).

The giving of this instruction was simply a continuation of the Court's errors as set forth in the Assignments of Error Nos. I, II and IV. The instruction embodies the theory that a mere showing of the purchase of war bonds in excess of reported income for a taxable year made out a *prima facie* case against the defendant. The Court told the Jury if they found from the evidence that the increased net worth of the defendant measured the taxable income in a substan-

tial amount over that reported, such fact would be one of the essential elements in the charge against the defendant. The difficulty with the proposition is that the Jury has no way or means of knowing whether the bond purchases were from taxable income earned during the years in question and not reported to the Collector. The mere possession of assets shown to have been acquired in a particular year offers no proof that such acquisition was from current earnings, let alone that it was from unreported earnings. All that the Jury did or could have done was to hazard a guess as to when the money for the purchase of said bonds was obtained.

It is to be noted further that no reference is made in the instruction that the Jury must find unreported income to have come from the sources enumerated in the Bill of Particulars. In the first paragraph of said instruction the Court sets out the Government's theory as follows:

"The Government therefore relies upon the fact that when such an increase is shown, it has established circumstantially that such *income* was taxable income and was acquired by the defendant in each of the years 1943, '44 and '45." (Tr. 450-451). (Italics ours).

Here the Court treats the acquisition of assets actually as income, failing to mention that it is for the Jury to find whether the acquisition was or was not income. By so doing the Court usurps a question of fact from the Jury's province.

## ASSIGNMENT OF ERROR NO. VIII

*Prejudicial error which could not be cured by an instruction from the Court to the Jury to disregard counsel's remark was committed by counsel for the prosecution when he in substance told the Jury that a failure to convict would indicate they did not believe in our system of Government any longer.*

In concluding his argument to the Jury counsel made the following prejudicial argument:

"You and I know, when we see these hearings on communism back in Congress today. We hear about what is going on all over the world, and our system of government today is standing a test. We are being tried. If people feel that you can walk into a court room like this and walk out and get away with what this man did, they don't believe in our system any more.

MR. GAGLIARDI: I object to counsel's remarks as improper and prejudicial and not called for, and not supported by the evidence, and as appealing to the passion and prejudice of the jury, and I am excepting to his argument, your Honor.

THE COURT: The last remark of counsel the jury will disregard." (Tr. 434-435).

As we view the foregoing statements of counsel, it appears that the Jury were told in substance that they would either convict the defendant or else be placed in the position of being found to have lost faith with our system of Government. This is in utter disregard for the rule that guilt must be determined on the evi-



dence and it nullifies the instructions pertaining to reasonable doubt and presumption of innocence. Whether the Court's comment to disregard the last remark was sufficient to eradicate the prejudice raised by the argument is extremely problematical.

We quote the following from the case of *Singer v. United States* (C.C.A. 3, 1932), 58 Fed. (2d) 74, which appears to be appropriate at this time:

"Innocent men may be indicted and convicted, and guilty men may be acquitted, but both good and bad men are alike entitled to the application of the rules of evidence which courts throughout the ages have found to be best for the fair and impartial administration of the law. When these rules, under the stress and strain of a trial, have been violated, it does not cure the injury to reply with the stereotyped argument that it does not appear it in any wise influenced the minds of the jury. The reply the law makes to such suggestion is 'that, after injecting it into the case to influence the jury, the prosecutor ought not to be heard to say, after he has secured a conviction, it was harmless.' *Miller v. Territory of Oklahoma* (CCA), 149 F. 330, 339, 9 Ann. Cas. 389; *Coulston v. U. S.* (CCA), 51 F. (2d) 178, 182." *Singer v. United States*, 58 F. (2d) 74, p. 77.

When the direct representative of our Government tells the Jury that a failure to convict is tantamount to being classed as subversive, it appears to us that a digression on the facts in the case amounts to prejudicial error which is incurable, and we submit it to the consideration of this Court on that proposition.

## CONCLUSION

We respectfully submit to this Honorable Court that the *corpus delicti* was not established by the prosecution; that evidence of the acquisition of war bonds in excess of returned income for a given year is no proof that said assets were acquired with current income, or that said income was taxable income, or that the acquisition was made from unreported earnings; that the acquisition of said assets is perfectly consistent with innocence and is not such a circumstance as points to guilt to the exclusion of every other hypothesis.

We further respectfully submit that in an income tax evasion case evidence of an attempt to bribe for the purpose of showing a consciousness of guilt is inadmissible where the predicate to said testimony shows that the defendant was being questioned and investigated for crimes other than income tax evasion at the time of the reported attempted bribe, and it is unknown for which crime he may have attempted atonement.

It is also submitted that evidence pertaining to the defendant's entry into his own safe deposit box, without any showing that the defendant either placed therein or removed any assets therefrom, was inadmissible, as it was a collateral matter without probative force or effect, from which no reasonable infer-

ence could be drawn which would tend to prove the defendant guilty of income tax evasion, the only purpose which it could have served being to prejudice the minds of the Jury against the defendant and to find him guilty on conjecture and speculation.

It is also respectfully submitted that when a Bill of Particulars is once given to a defendant that the prosecution is thereafter limited thereby and that where the Bill of Particulars sets out the sources from which it is claimed that the defendant failed to report income, a failure to show unreported income from the enumerated sources is a total failure of proof, and evidence that there may have been unearned income from another source or any source generally is at fatal variance with the pleadings.

It is also submitted that where a witness is permitted to draw a conclusion from his own testimony that said conclusion cannot be admitted in evidence unless it reasonably appears that the facts upon which it is based are sufficiently complete to afford an accurate deduction therefrom, and that the witness Swanson's testimony pertaining to the defendant's net worth as of December 31, 1942, was based entirely upon his conjecture and without knowledge of the facts, which would make his conclusion untrustworthy and therefore inadmissible.

As acquisition of war bonds in excess of income for a given year fails to establish a *prima facie* case of

income tax evasion, the Trial Court's instruction to the effect that it does establish such a case, and that the Jury is authorized to convict the defendant thereon, places the burden upon the defendant to prove his innocence.

We also submit that a failure to instruct the Jury that they must find unreported income, if any, to have come from the sources enumerated in the Bill of Particulars permitted the Jury to speculate and consider sources concerning which the defendant had no knowledge, and against which the defendant was not prepared to defend.

When the United States District Attorney tells the Jury in substance that they must either convict the defendant or be classed with those opposed to our system of Government, we submit further that this prejudicial departure from the facts and the law of the case was incurable.

Therefore, we most earnestly submit that by reason of the total failure of proof of the charges made against the defendant, the judgment and sentence of the Trial Court are erroneous and should be set aside, with directions given to the Trial Court to enter a judgment of acquittal. In the alternative, a new trial should be granted because of the errors committed in the admission of irrelevant and prejudicial evidence and because of misconduct on the part of the United

States District Attorney in making his argument to the Jury.

Respectfully submitted,

GAGLIARDI, URSICH & GAGLIARDI,

and

FRANK HALE,

*Attorneys for Appellant.*









No. 11803

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IN THE  
**United States**  
**Circuit Court of Appeals**  
FOR THE NINTH CIRCUIT

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JOHN BARCOTT,

*Appellant,*

vs.

UNITED STATES OF AMERICA,

*Appellee.*

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UPON APPEAL FROM THE DISTRICT COURT OF THE UNITED  
STATES FOR THE WESTERN DISTRICT OF WASHINGTON  
SOUTHERN DIVISION

---

HONORABLE CHARLES H. LEAVY, *Judge*

---

**BRIEF OF APPELLEE**

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FILED

JUN 21 1948

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## INDEX

	Page
JURISDICTION .....	1
STATEMENT OF THE CASE.....	1
ARGUMENT .....	8
CONCLUSION .....	33

## CASES CITED

<i>Affronti v. United States</i> , 145 F. (2d) 3.....	23
<i>Breedin v. United States</i> , 73 F. (2d) 778.....	33
<i>Di Carlo v. United States</i> , 6 F. (2d) 364.....	23
<i>Dunn v. United States</i> , 50 F. (2d) 779.....	33
<i>Gerard v. United States</i> , 61 F. (2d) 872.....	33
<i>Gleckman v. United States</i> , 80 F. (2d) 394.....	10
<i>Graham v. United States</i> , 120 F. (2d) 543.....	31
<i>Guzik v. United States</i> , 54 F. (2d) 618.....	16
<i>Hargreaves v. United States</i> , 75 F. (2d) 68.....	31
<i>Madden v. United States</i> , 20 F. (2d) 289.....	21
<i>Malone v. United States</i> , 94 F. (2d) 281.....	12
<i>Moffett v. United States</i> , 154 F. (2d) 402.....	31
<i>Murray v. United States</i> , 117 F. (2d) 40.....	17
<i>Phelan v. United States</i> , 249 F. 43.....	33
<i>Rocchia v. United States</i> , 78 F. (2d) 966.....	21
<i>Taylor v. United States</i> , 142 F. (2d) 808.....	31
<i>United States v. Johnson</i> , 123 F. (2d) 111.....	18
<i>United States v. Picarelli</i> , 148 F. (2d) 997.....	22

## STATUTES

Title 26 U.S.C. Sec. 145(b) .....	2
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**BRIEF OF APPELLEE**

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**JURISDICTION**

Jurisdiction on this appeal is conceded for the reasons stated by appellant.

**STATEMENT OF THE CASE**

*The Charge.*

The appellant was charged by an indictment con-



taining three counts with violations of 26 U.S.C. 145(b) for willful income tax evasion for the calendar years of 1943, 1944 and 1945. (R. 2-5).

A summary of the figures as to income reported and actually received, and tax paid and actually due, as charged in the indictment follows:

Calendar Year	Income Reported	Actual Income	Tax Reported	Actual Tax Due
1943 .....	\$6,720.40	\$12,406.33	\$1545.38	\$3,646.25
1944 .....	5,632.57	9,926.61	1288.45	2,727.85
1945 .....	7,388.98	11,138.92	1833.36	3,201.96

The appellant plead not guilty and after trial to a jury was found guilty on all three counts. (R. 37) Pursuant to the verdict, and on November 24, 1947 a judgment was entered imposing imprisonment for ten months, and a fine of \$750.00 on each count, the terms of imprisonment to run concurrently and the fines to be accumulative. (R. 41)

### *The Facts.*

Mr. Stanley Nielsen, an Agent of the Bureau of Internal Revenue, had learned of the defendant having obtained ten one-thousand dollar bills with currency of ordinary denomination. (R. 71) On January 28, 1946, having such information, the agent called upon Mr. Barcott and advised him that he was investigating the currency transaction. Barcott offered to take the agent to his safety deposit box to show him the \$10,000. (R. 72) Upon opening the

safety deposit box the defendant produced two packages of currency, stating it to be the \$10,000 they had been talking about. He did not get this currency from his safety deposit box, however, but from his person, and instead of its being \$10,000 it actually was \$20,000 in currency. (R. 73-74)

Nielsen, the agent, inventoried the contents of the safety deposit box in the presence of Barcott, and found it to contain an additional \$3,000 in currency, and approximately \$75,000 face value of government war bonds. (R. 74) During the course of making this inventory Barcott made several offers of cash and other valuables, to the agent to induce him to make a favorable report. (R. 75, 76).

At a later date, on February 13, 1946, the same agent, together with another Internal Revenue Agent, Harry Swanson, went with the defendant, and again inventoried the contents of this safety deposit box, and the same contents were found in it. (R. 77, 115) On this occasion the agents for the first time learned that Barcott had another safety deposit box. This was inspected by the agents on February 13, and at this time it was found to contain only miscellaneous papers. (R. 78, 115)

The foregoing facts are all admitted by the defendant, except the attempt to bribe Nielsen, which

fact the defendant denied.

Immediately after leaving Nielsen on the occasion of the first inventory of the defendant's safety deposit box, the defendant made an entry into his other safety deposit box. He again entered this second box the following morning at 9:02 A. M. and was unable to explain the purpose of that entry. (R. 294-6; plaintiff's exhibits 10 and 11).

The date of issue on the war bonds will, of course, show the approximate date of purchase. (R. 122; plaintiff's exhibits 4, 5, and 6). During the year 1943 the defendant purchased bonds at a cost to him in the sum of \$20,750. (R. 126) During 1944 his increase in war bonds, at a cost to him, was in the sum of \$19,000 (R. 128), and in 1945 he purchased bonds at a cost to him in the sum of \$20,000 (R. 129).

Harry O. Swanson, an Internal Revenue Agent, had made a comprehensive check of the known assets of the defendant. (R. 116). These assets consisted of the war savings bonds and cash in the sum of \$23,000, which were found in his safety deposit box; a checking account in the name of California Oyster House, and a savings account in the name of the defendant (R. 88; plaintiff's exhibits 7 and 8, a real estate and conditional sales contract in favor of the defendant (R. 88-9; plaintiff's exhibit 9); 14 shares

of capital stock of Fishermen's Packing Corporation (R. 105-9; plaintiff's exhibit 12); and, of course, the equipment in his place of business, the California Oyster House, and certain real estate.

On the basis of this information Swanson computed the defendant's increase in net worth during the period from January 1, 1943 through December 31, 1945. (R. 116-30). He computed the defendant's net worth at the beginning of the period as being \$57,278.56 (R. 119 and 124), and in doing so gave him credit for the \$23,000 in cash as though he had that cash on hand at the beginning of the period. (R. 121). At the end of 1943 the net worth had increased to \$79,206.60, an increase of \$21,928.10. (R. 127). At the end of 1944 the net worth had increased to \$97,462.75, an increase during the year of \$18,256.09. (R. 129). At the end of 1945 the net worth had increased to \$116,316.60, a net increase for the year of \$18,853.85. (R. 130 and 133).

This same agent, Mr. Swanson, checked the income tax returns of the defendant for the period from 1919 through 1942. During some of these years the defendant filed an income tax return, which, of course, showed his income for those years. In other years during this period no return was filed by him. For the purpose of determining the highest possible net

worth of the defendant as of the end of 1942 Swanson computed his maximum earnings for this 24-year period, i.e., from 1919 to 1942, as reflected by the tax returns filed, and the maximum exempt earnings in those years in which no returns were filed. From the total arrived at by this method the agent then deducted the cost of living for Barcott and his family, estimated at \$125.00 per month. This left a net worth as of December 31, 1942 of \$53,000. This figure corroborated rather closely the net worth as of the same date in the sum of \$57,278.00, which the agent had arrived at from an investigation of the known assets of Barcott. (R. 142-4).

On May 22, 1940 Barcott surrendered a portion of his stockholding in Fishermen's Packing Corporation in payment of a \$200.00 note which he had owed that corporation since 1932. (R. 149, 150; plaintiff's exhibit 14). This stock paid him 6% dividend within twenty days after he surrendered a portion of it. (R. 274).

The foregoing facts were all disclosed in the government's case in chief. Additionally it was shown in the defendant's case that during the years 1937 to 1942 inclusive the defendant purchased numerous pieces of furniture and equipment on installment contracts. (R. 405-6).

The defense submitted was to the general effect that the defendant had accumulated some \$100,000 prior to 1942 from his restaurant business and that he was enabled to accumulate this sum because there were no deductions therefrom for living expenses or otherwise; that all living expenses during the period from 1920 through 1938 were paid from tips received by the defendant's wife, who during that period worked in the restaurant.

The defendant produced a Certified Public Accountant, Robert E. Birch, who computed the defendant's possible net worth as of the end of 1942. He did it in much the same manner as the Internal Revenue agent had, except that his computation was based upon information given to him by Mr. Barcott, without records to verify it, and his computation included tips reportedly received by the defendant's wife at the rate of \$7.50 per day for 300 days a year during the 16 year period from 1920 through 1935. (R. 368). He arrived at a net worth figure substantially in excess of that determined by Mr. Swanson, the Internal Revenue agent, but his computation also showed that Barcott had understated his income for tax purposes by \$43,686.18. (R. 397).



## ARGUMENT

We shall discuss the appellant's Assignment of Errors in the same order as they have been argued in appellant's brief.

*Sufficiency of the Evidence.*

In presenting this issue, the appellant includes with it their second assignment of error, which claims error in the admission of Swanson's testimony as to net worth as of December 31, 1942, on the ground that it was based upon assumptions.

As we conceive their argument on this issue, it is that Swanson's computation of increase in net worth during the three years in question was based primarily upon the increase in accumulation of war bonds during those years, and that it was pure assumption that such bonds were purchased from earnings during those years. This argument overlooks the testimony of Swanson to the effect that he got this information directly from Barcott. Swanson testified as follows: (R. 136).

"Q. And what he purchased after January 1, 1943, then you assumed he purchased on that time?

A. At the issue date, yes, sir.

Q. Issue date. And you assumed that he got that money from the business?

A. Yes, I had no other knowledge.

Q. You had no other knowledge. You made no other inquiry?

A. I made other inquiry, yes, sir.

Q. Where did you inquire?

A. We inquired from Mr. Barcott, he was asked numerous times after the first contact if he had any other source of income.

Q. Just asked the sources of income?

A. That's right."

It also ignores the testimony of Nielson as to what Barcott told him, as follows:

"I have always filed income tax returns in the operation of my restaurant, and I ordinarily accumulate \$5,000 or \$6,000, and purchase U. S. Savings bonds." (R. 72).

That testimony, if believed by the jury, was an admission by Barcott that the money used in the purchase of these bonds came from the earnings from his restaurant business. In view of such information coming from the defendant, there was no need or basis for assumption on the part of the witness. It then became an admitted fact.

Terming this evidence of Swanson's as pure assumption the appellant therefore contends that there was not sufficient evidence to submit the case to the jury. This same contention on strikingly similar facts has been urged in numerous other cases and rejected.

Almost identical issues and contentions are presented in the case of *Gleckman vs. U. S.* 80 F. (2d) 394 (C.C.A. 8). In this case also the government agents were unable to determine income by resort to the defendant's books or records because of the lack thereof, and so they predicated their proof upon an examination of deposits made in defendant's bank accounts. They were unable, however, to trace the sources of these deposits. Concerning the testimony the court stated at page 397:

"It appeared on the trial that there had been deposits made to the credit of Mr. and Mrs. Gleckman in the two banks during 1929 amounting to \$156,822.06, of which the auditor was able to trace and eliminate \$63,915.48 as nontaxable loans, stock and bond transactions, and rents and salary items, leaving a balance of untraceable cash and unexplained deposits of \$92,906.58."

And again on pages 398 and 399:

"There was no direct testimony to show what business transacted by Mr. Gleckman had produced the large sums of money that accrued to him in addition to the items reported in his return. There was no direct proof of any specific deals or transactions outside of those included in his return which were shown to have netted

Mr. Gleckman any gains or profits. All of the testimony adduced for the defendant concerned the large items of receipts that accrued from nontaxable transactions, and none of the government's witnesses testified to any particular gain accruing to Mr. Gleckman from any specific transactions beside those reported by him. There was no direct testimony that he received any dividends from his distillery or other stocks.

And it is the contention of the appellant that the prosecution must fail on that account. \* \* \* But the argument is that as the government could not prove where or how or from whom Mr. Gleckman got the sums aggregating more than \$150,000 shown to have come into his hands during the year over and above all the items eliminated by the auditors and all of the items included in his income report, it could not be found that he earned it or that it came to him as gains or profits. The point is particularly insisted upon with reference to the untraceable items and the cash items of the bank deposits. Such items it is said may just as well have been drawn from nontaxable transactions as from services or business."

In considering the sufficiency of the evidence, the court states at page 399:

"Undoubtedly the burden was upon the government to prove that an income tax was due from Mr. Gleckman for the years in question over and above the amount returned — he could not be guilty of attempting to evade or defeat a tax unless some tax was due. *O'Brien v. United States* (C.C.A. 7) 51 F. (2d) 193. It may be conceded also that the bare fact, standing alone, that a man has deposited a sum of money in a bank would not prove that he owed income tax

on the amount; nor would the bare fact that he received and cashed a check for a large amount, in and of itself, suffice to establish that income tax was due on account of it.

On the other hand, if it be shown that a man has a business or calling of a lucrative nature and is constantly, day by day and month by month, receiving moneys and depositing them to his account and checking against them for his own uses, there is most potent testimony that he has income, and, if the amount exceeds exemptions and deductions, that the income is taxable." (Citing cases).

And again at page 401:

"The gist of the charge here is that there was a tax due and a willful attempt to evade it. Testimony sufficient to satisfy the jury beyond a reasonable doubt upon the issue was all that was required and the proof that large amounts were taken out of some kind of business and were used as his own by the defendant, considered together with the circumstantial evidence referred to and the evidence tending to show that he had unreported net gains during the year and that his net worth was increased thereby, required submission to the jury."

To show the similarity in the contentions now made by appellant and those rejected by appellate courts in other cases, we quote the court's statement of the appellant's contention in the case of *Malone vs. U. S.* 94 F. (2d) 281 (C.C.A. 7) appearing at page 287, as follows:

"The fourth assignment relates to the refusal of the court to direct a verdict. It is defendant's



contention that there is no proof of guilt. By this is meant there is no evidence proving that the unreported bank deposits were income, as distinguished from a gift, inheritance, or loan, and even if they were shown to have been income, there was no proof that such were income earned for the years in question."

In this case the appellant during the years involved was a member of the Illinois State Tax Commission, which commission fixed the capital stock tax of domestic corporations in that state. The government's evidence showed that there were large deposits in currency to the bank accounts of the defendant over and above his reported income. There was some circumstantial evidence that some of these cash deposits came from corporations whose capital stock tax was before the tax commission for determination. The defendant, however, testified that they were from an accumulation of money received as campaign contributions in prior years, and held in a safety deposit box in cash until the deposits were made in his bank accounts. In holding that the government's evidence made a case for the jury the court said, beginning at page 287:

"We have heretofore set forth rather fully the testimony and shall not do so again. The fact that the defendant, in addition to his other reported income, deposited in the bank such large amounts of currency on so many occasions under the circumstances shown by this record, while of



itself, not sufficient, is nevertheless a rather convincing circumstance in support of the charge. Notwithstanding defendant's contention to the contrary, we think the language of the court in *Gleckman v. U. S.*, 8 Cir., 80 F. (2d) 394 is applicable here. There it was said on page 399: 'If it be shown that a man has a business or calling of a lucrative nature and is constantly, day by day, and month by month, receiving moneys and depositing them to his account and checking against them for his own uses, there is most potent testimony that he has income, and, if the amount exceeds exemptions and deductions, that the income is taxable.'

It is said this language is inapplicable to the present case inasmuch as Gleckman was secretly in the illicit liquor business; that in the instant case there is no evidence of any business conducted by the defendant other than that from which defendant's income was accounted for in his returns. We do not agree with this contention. The fact is, there is evidence to support the conclusion that defendant had a rather lucrative income in connection with his membership on the Tax Commission. From such source, it may be concluded, he received \$32,500 in 1927; \$31,000 in 1928; \$15,000 in 1929, and \$41,000 in 1930. The fact that the final assessments against corporations from whom this money was received, were decreased, in connection with the circumstances under which the defendant received the money, was sufficient to justify a jury in believing the same was received by the defendant as bribes, and that at least a sizable portion of the currency deposits came from such a source and constituted a part of defendant's income. The evidence that defendant's net worth during the

years in question was increased in an amount somewhat similar to the amount of the currency deposits is not without significance.

When the defendant was interviewed by internal revenue agents in 1930, he surely knew the purpose of the investigation was to ascertain if there had been an evasion of income tax. Instead of explaining the source of the currency deposits, he displayed an ignorance concerning the same which cannot be attributed to one of his experience and intelligence. Neither is it consistent with innocence. The excuse is offered for him that his failure to make an explanation at that time was due to the secrecy attending the manner in which he received the funds. We are unable to perceive why the divulging of such a sordid secret could not have been made at that time with as much propriety and even more so before two revenue agents, in a private office, rather than before a jury and the world a few years later. It is more reasonable to conclude that the explanation now offered was not in existence at that time. Thus, his refusal to explain, when given an opportunity, is another circumstance pointing toward guilt. There was no burden, of course, upon the defendant to testify at the trial. He could explain the source of the rather fabulous sums deposited in his bank account and used in his business, or not, just as he saw fit. When, however, he became a witness and sought to explain, the jury was not bound to accept his story as true. Their verdict discloses they disbelieve him, and in this, we think, they were entirely justified. In corroboration of defendant's explanation, our attention is called to fabulous sums often expended in presidential campaigns. This affords little, if any, support to the story as related by defendant. The determination of such questions of fact, however, are within the prov-

ince of the jury and we find no reason to disagree.”

In *Guzik v. United States*, 54 F. (2d) 618 (C.C.A. 7), an income tax case predicated upon unreported income as shown by bank deposits, the court held at page 620 as follows:

“Appellant also contends that the trial court erred in overruling his motions for a directed verdict on the ground that the government failed to prove a net taxable income in excess of the amount shown on the appellant’s returns. As we stated in the *Oliver Case*, supra, even though the deposits in themselves were not sufficient evidence to establish the conclusion that they were all income, they nevertheless were substantial evidence of income. \* \* \* \* in the instant case there was direct evidence to the effect that a considerable part of the large sums deposited in appellant’s bank accounts came from the operation of gambling businesses in a suburb of the city of Chicago. Moreover, other evidence, while not as direct, was about as persuasive that other sums so deposited came from his participation in other enterprises in the nature of a gambling business, such as dog races, etc.

It may be true that appellant did not receive for himself all of the profits of these gambling businesses, but that profit nevertheless was turned over to him and under his direction placed in his bank account. It may also, be true that substantial sums were by him paid out for the protection of these unlawful businesses, leaving his net profits considerably less than those claimed by the government. But if such deductions were made, or if the sums deposited in appellant’s name were subsequently divided

among others interested with him, there is no word from him nor from other witnesses to establish the possibility.

Certainly the evidence in this case respecting the guilt of the accused was not only sufficient to go to the jury, but, in the absence of any explanation or denial, appellant's guilt seems well established."

In the case of *Murray v. U. S.* 117 F. (2d) 40 (C.C.A. 8) the defendant during the years involved was Director of Public Works at Kansas City, Missouri and was WPA Administrator for the state of Missouri. In these capacities it was his duty to let contracts for public works. It was shown that he received substantial sums of money, not reported by him as income, from certain contractors who had obtained large public works contracts through the defendant's offices. The defendant admitted receipt of the sums of money, but claimed that they were gifts. In considering the sufficiency of the evidence the court held beginning at page 43:

"If the money and bonds received by defendant were not gifts, they were income and a failure to include them in his income tax return, if willful, would constitute an attempt to evade and defeat the income tax. (Citing cases)

"It is urged by the defendant that his conviction rests solely upon circumstantial evidence, and hence, must be of such probative character as to exclude every reasonable hypothesis but that of guilt, and be inconsistent with his innocence. The evidence need only be examined to an extent

necessary to determine that there was substantial evidence if believed by the court, to sustain the court's finding of guilt beyond a reasonable doubt.

\* \* \* \* \*

The only evidence in the record inconsistent with the defendant's guilt is his testimony that he received gifts. The lower court, whose business it was to judge of the credibility of the witnesses, held that this testimony was incredible. The court accepted defendant's acts, rather than his words, as speaking the truth. His secretive use of cash, his explanation of his right to the "cut" in the prison contract, and his favoritism to the concerns in which the donors had an interest, are all inconsistent with the innocent receipts of gifts."

It will be noted that in the foregoing cases the unreported income in most of them first came to light by deposits in bank accounts. In our own case the unreported funds first came out of hiding when invested in government bonds. There would seem to be no substantial basis for a distinction in the two situations. However, in the case of *U. S. v. Johnson*, 123 F. (2d) 111 (C.C.A. 7) the court held that a question for the jury is presented even where the evidence goes no further than to show spending during the year in excess of the reported income. The court so held beginning at page 124:

"The Government sought to sustain the charge that Johnson failed to report all of his taxable



income for the years 1936 to 1939, inclusive on two distinct theories: \* \* \* \*

(b) By offering proof that he expended in said years more cash than he had available for spending, according to the income reported."

"On the expenditure theory, however, the case is more favorable to the Government. This theory was sought to be established by proving a statement purported to have been made by Johnson on January 1, 1932, that he had cash on hand in the amount of \$78,000. Thereafter his income, as disclosed by his returns and his expenses, was shown year by year. The expenses, as shown by the Government from 1932 to 1939, were greatly in excess of his income for the same period. Admittedly, under this theory, the proof failed to establish the charge as to the year 1936. His income as reported for that year, plus what he had on hand at the beginning of the year, exceeded his expenditures by more than \$184,000. For the year 1937, however, his expenditures exceeded his income by \$106,000; for 1938 by \$367,000, and for 1939, by \$151,000. True, there is a dispute as to many of the items involved in these calculations, and as to some of them, a serious dispute. We are of the opinion, however, that the proof of his income on this so-called expenditure theory was sufficient to present a jury question. As the proof on this theory, however, does not support the charge as to the year 1936, (count one) Johnson's motion for a directed verdict as to that count should have been allowed. As to the other counts, it was properly denied."

The fair import of these cases is that while a showing of deposits or expenditures in excess of re-



ported income standing alone may not be sufficient, that when such evidence is combined with other direct or circumstantial evidence, that a case is made for the jury's determination. In the present case there is substantial evidence in addition to that of the increased assets, pointing to and corroborating such increased assets being income for the years in question. Some of the more obvious elements of such evidence are as follows: The defendant's secretive hoarding of large sums of currency in safety deposit boxes; his attempted bribe of the agent when first confronted with an investigation; his failure to advise the agents, while being questioned, about sources of income, of the later asserted income from his wife's tips; (R. 287) the understatement of income as developed by his own accountant; the corroboration of his net worth at the beginning of the period, as developed from his reported income over the preceding 24 year period; the showing of his impecunious condition in the years immediately preceding 1943, as demonstrated by his surrender of dividend paying stock in the Fishermen's Packing Corporation to liquidate a \$200.00 obligation, and his purchase of property on installment contracts; and, of course, the well known fact that business profits were abnormally high during the war years.

*Testimony of Bribe Offer to Agent Nielson.*

In his third Assignment of Error appellant contends that the testimony of Internal Revenue Agent Nielson concerning Barcott's tender of a bribe for a favorable report at the time he was first interviewed was inadmissible.

Such testimony has invariably been held admissible, even though it shows another crime than that charged in the indictment, on the theory that it demonstrates a consciousness of guilt on the part of the defendant.

In *Madden v. U. S.* 20 F. (2d) 289 this court held testimony concerning an effort on the part of the defendant to dissuade a government witness from testifying was properly admitted, stating at page 294:

"Both Rasmussen and his wife testified before the jury as to what occurred at their hotel. Under a familiar rule, such testimony was properly received against Madden, as tending to show a consciousness of guilt."

In *Rocchia v. U. S.* 78 F. (2d) 966, this court also held that testimony of an attempt on the part of the defendant to bribe an arresting officer was competent in a prosecution under the Internal Revenue laws with respect to the operation of a distillery. See page 972.

In *U. S. v. Picarelli*, 148 F. (2d) 997 (C.C.A. 2) defendant and one Ward were charged jointly with unlawful possession of gasoline ration coupons. The court says beginning at page 997:

"As to Picarelli the case was somewhat less strong but was still sufficient to submit to the jury. Picarelli owned the parked automobile. The officer saw him leave the driver's seat walk to a vacant lot, pick up some empty bottles and bring them back to the car. At this moment the policeman intervened. Picarelli stated to the arresting officer that he did not know where the coupons came from and that Ward said he found them in the car. On the way to the police station, Picarelli pulled his car to the curb and said to the policeman, "Listen, Officer, can't we talk this thing over?" No innocent explanation of this inquiry being vouchsafed, we think the effort to effect a settlement may be regarded as evidencing consciousness of guilt."

If we fully comprehend appellant's contention on this assignment, he concedes the rule generally. He attempts to escape the effect of the rule by the following process. The agent advised Barcott he was investigating black market activities, as well as income tax evasion. Hence, the offer to bribe does not necessarily show a "consciousness of guilt" as to income tax evasion, but may only show a "consciousness of guilt" as to some black market activities.

We think the distinction is too nice to compel exclusion of the testimony. It will be noted that the

appellant compares this sort of testimony to testimony of flight following an offense, and argues that flight from one crime would not be admissible in a trial for another crime.

This contention has been directly overruled in *Affronti v. U. S.* 145 F. (2d) 3 (C.C.A. 8) wherein the court states at page 7:

“The defendant contends that the court committed reversible error in permitting the government to show that the defendant, by disappearing, not only forfeited his bond in this case, but also forfeited bonds in two other cases pending against him at the time. We think the contention is without merit. The government was entitled to show the circumstances under which the defendant disappeared. Moreover, the evidence complained of was at least as beneficial to the defendant as it was harmful, since it showed that the indictment in the instant case was not the only inducement for his leaving the jurisdiction.”

Appellant's reasoning in this connection is again denied, at least inferentially, in *DiCarlo v. U. S.* 6 F. (2d) 364 (C.C.A. 2) wherein testimony was admitted and sustained of an offer to bribe made by the defendant's attorney out of defendant's presence. See page 368. If such testimony of a bribe offer is admissible it could not well depend upon the defendant's *awareness* of the nature of the charge to be later brought against him.

*The Bill of Particulars.*

Under assignment of error No. 4 appellant complains of error in permitting the government's proof as to unreported income going beyond the sources of income set forth in the Bill of Particulars.

In each count of the indictment the major portion of the alleged true income is designated as "income from business". (R. 3, 4 and 5). A Bill of Particulars was filed by the government stating that this item "income from business" was from the defendant's restaurant business.

Appellant makes no complaint about the other particularizations in the Bill, but the gist of his contention under this issue is that the government's evidence was not sufficient to show that the source of the unreported income was the defendant's restaurant business. Their position in respect to this issue is unsound for the same reasons as is their argument in respect of their contentions concerning the sufficiency of the evidence generally.

There was ample evidence, if believed by the jury, to prove that the major source of appellant's income during the years in question was from his restaurant business. The witness Swanson testified that his knowledge as to this source of income came directly

from admissions or statements by the defendant. (R. 136-7). Appellant's brief constantly refers to Swanson's "assumption" in this respect, but if there was any assumption on the part of Swanson it was predicated upon the defendant's own statements as to his sources of income.

*Plaintiff's Exhibit No. 11 Showing Defendant's Entry Into a Safety Deposit Box.*

Plaintiff's Exhibit No. 11 is a record of the Washington Safe Deposit Company showing entries into a box rented by that company to the defendant. A brief resume of the facts may be appropriate at this point.

The defendant maintained two safety deposit boxes. One in the National Bank of Washington (R. 89; plaintiff's exhibit 10), which we shall hereinafter refer to as the first box, and one in the Washington Safe Deposit Company (R. 103; plaintiff's exhibit 11), which we shall refer to as the second box. On the first visit of agent Nielson to Barcott, Barcott took him to his first box to show him the \$10,000 in currency, which he said he had been accumulating. (R. 72). Barcott said he had this money in the box. (R. 72). However, when they opened the box Barcott



produced the currency not from the box, but from his person, and it was not \$10,000, but \$20,000. (R. 73). There was an additional \$3,000 actually in the box. It was during this visit to the first box that the defendant became very agitated, and according to Nielson made the bribe offer. This occurred on January 28, 1946, and they left the first box approximately 12:30 P. M. (R. 80). At 12:45 P. M., fifteen minutes later, the defendant entered his second box, and again entered it at 9:02 A. M. the following morning. (Plaintiff's exhibit 11; R. 296). The defendant was unable to account for these entries into his second safety deposit box, and manifested considerable distress when being questioned about it. (R. 295-6)

In view of the defendant's admitted accumulation of large sums of currency in his safety deposit box, and business safe, these unexplained entries into this second box were circumstances pertinent to the issue of withholding and secreting income. The very time element involved is significant. Most of the cases cited hereinabove under the appellant's first and second assignments rely upon the maintenance of safety deposit boxes for the keeping of currency as being one of the significant circumstances in income tax evasion cases. The keeping of currency in safety deposit boxes is one of the more common devices used to keep

income concealed and from showing on the usual records. The cases cited *supra* confirm this fact.

*The Court's Charge to the Jury.*

The appellant's next two assignments of error, No. 6 and 7 refer to the court's instructions to the jury and hence we shall consider them together.

Assignment No. 6 complains of the court's refusal to give parts of appellant's requested instruction No. 2. This instruction, and what the court did with it, is set forth in the record at pages 29 to 32, and in appellant's brief at pages 48 to 50.

We think it must be apparent that those portions of that instruction which the court refused are incorrect statements of the law and were therefore properly refused. For instance, that portion of the instruction designated as subdivision (a) and reading as follows:

"You are instructed that the prosecution must prove to you, beyond all reasonable doubt, the following facts:

(a) That the defendant on December 31, 1942 did not own or possess any greater amount of assets or 'net worth' than that which the prosecution claims the defendant owned on that date."

wholly fails to give recognition to the principle of law, admitted by appellant, that the government does not

need to prove exactly the amount of evaded income tax or income alleged in the indictment. The effect of this portion of the requested instruction is to tell the jury that if the net worth, as computed by the government at the beginning of the period, was even one cent less than his actual net worth on that date, that then the government's entire case must fall.

That portion of the requested instruction designated (c) and reading,

"That the assets purchased for the year 1943 were purchased and acquired with net income of the defendant derived from the following sources:"

is palpably wrong. Also, it demonstrates the appellant's complete misconception of the theory of net worth proof. Net worth increase during a year is circumstantial evidence of income for that year, as the court fairly instructed the jury. Note that in this subdivision (c) of the instruction the appellant used the words "assets purchased". It implies that assets purchased during a certain year would have to be shown to have been purchased from income from that year. Such proof is not necessary. It may well be that assets purchased in a certain year were purchased from accumulations of cash from a prior year and that such cash accumulations were then replaced with income from the current year. This process

would still show an increase in net worth, and such increase would tend to prove the ultimate fact of income earned during that year.

The appellant's obvious misunderstanding of the effect of net worth increase is again shown in his complain under assignment of error No. 7 in which he alleges error in a portion of an instruction given by the court. The appellant complains that the instruction advised the jury that a showing of purchase of war bonds in excess of reported income made a *prima facie* case. (Appellant's brief 52).

This is a strained interpretation of the instruction and is arrived at, partly at least, by accentuating only excerpts of the court's charge. The complained of portion is a part of the court's charge on the effect of circumstantial evidence. The paragraph immediately preceding that quoted by appellant states this:

"Circumstantial evidence is quite as competent as direct evidence when certain rules are applied to its weight and consideration, and *I think in this case the government relies upon circumstantial evidence to establish the income of the defendant.*" (R. 450) (Italics supplied)

Further portions of the court's charge on circumstantial evidence are as follows:

"The government therefore relies upon the fact that when such an increase is shown, (i.e., increase in net worth) *it has established circum-*

*stantially* that such income was taxable income \* \* \* \*”. (R. 450) (Italics supplied)

“Now an essential element of the offense herein is that the defendant’s *taxable income* was greater than that which he reported. If such fact is not proven then you would find the defendant not guilty.” (R. 451) (Italics supplied)

“If you find from the evidence that the increased net worth of the defendant in the years in question here, *measured the taxable income* of the defendant in a substantial amount of that reported \* \* \* \*”. (R. 451) (Italics supplied)

“In considering this matter, if you can reasonably account for the increased net worth of the defendant \* \* \* \* upon any reasonable theory or hypothesis that will admit of his innocence, it is your duty to do so and to acquit him.” (R. 451-2)

It seems quite obvious that this charge to the jury carefully pointed out to them that increase in net worth was not the ultimate fact, but that it was only to be considered by them as circumstantial evidence tending to establish the ultimate fact of income, and the court specifically advised the jury that it was up to them to determine, if in fact, the increase in net worth actually measured income.

We think on the whole the court’s charge was unusually fair and understandable. He carefully pointed out to the jury that there were three separate distinct charges, and that they must consider each count separately and not confuse them. (R. 443)



He then clearly defined and repeated the essential elements of the charge. These essential elements he told the jury were that the defendant owed more income tax than shown on his return; that he knew he owed more income tax than shown; and that he wilfully attempted to evade or defeat a part of such tax by filing a false return. (R. 446-7). As already pointed out, he then advised the jury that the government's evidence was circumstantial, and cautioned them concerning the usual limitations with which they must consider circumstantial evidence. (R. 450-2).

To appellant's complaint against the court's charge might well be applied the well settled principle that in considering the correctness of instructions, they must be considered as a whole and that detached phrases and sentences cannot be singled out and considered alone, but must be construed with their context.

*Hargreaves v. U. S.* 75 F. (2d) 68, 73 (C.C.A. 9);

*Taylor v. U. S.* 142 F. (2d) 808, 817 (C.C.A. 9);

*Graham v. U. S.* 120 F. (2d) 543, 546 (C.C.A. 10);

*Moffett v. U. S.* 154 F. (2d) 402, 405 (C.C.A. 10).

*The Prosecutor's Argument to the Jury.*

Toward the close of the Assistant United States



Attorney's opening argument to the jury he made the following statements:

"You and I know, when we see these hearings on communism back in Congress today. We hear about what is going on all over the world, and our system of government today is standing a test. We are being tried. If people feel that you can walk into a court room like this and walk out and get away with what this man did, they don't believe in our system any more."

Appellant's counsel objected, and the court promptly instructed the jury to disregard these comments of the prosecutor. Apparently at that time appellant's counsel was satisfied with the court's admonition because no further objections or requests were made in respect of the prosecutor's statements. However, appellant now complains of these remarks by government counsel under their 8th assignment of error.

We think a fair interpretation of this argument to the jury is that, if in view of the evidence, the defendant should be acquitted, the public generally would lose faith in our system of justice. Appellant places quite a different interpretation upon it, first stating that it meant a failure to convict would mean the jury had lost faith with our system of government. (Appellant's Brief 54) From this point appellant jumps to the conclusion that the argument had

the effect of accusing the jury of being subversive if they failed to convict. (Appellant's Brief 55). This flight of rhetoric of the appellant in this court, is at least as specious as is the argument complained of in the court below.

In any event, the court's instruction to the jury to disregard it must be held to have eradicated whatever impropriety there was in it. See *Phelan v. U. S.* 249 F. 43, 45 (C.C.A. 9), and *Dunn v. U. S.* 50 F. (2d) 779, 782 (C.C.A. 9). And if appellant did not think so, the burden was upon him at that time to have made further objection or requested a mistrial. He is not permitted to sit silently by and take chances on a favorable verdict, and then complain when it turned out unfavorable.

*Breedin v. U. S.* 73 F. (2d) 778, 780 (C.C.A. 4);  
*Gerard v. U. S.* 61 F. (2d) 872, 875 (C.C.A. 7).

## CONCLUSION

We suggest that the proceedings below were free of error and that the judgment should be affirmed.

Respectfully submitted,

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HARRY SAGER,  
*Assistant United States Attorney*  
*Attorneys for Appellee.*



In The United States  
**Circuit Court of Appeals**  
For the Ninth Circuit

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JOHN BARCOTT,

*Appellant,*

vs.

UNITED STATES OF AMERICA,

*Appellee.*

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**Reply Brief of Appellant**

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APPEAL FROM THE DISTRICT COURT OF THE UNITED  
STATES FOR THE WESTERN DISTRICT OF  
WASHINGTON, SOUTHERN DIVISION

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HONORABLE CHARLES H. LEAVY, *Judge*

---

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JUL 24 1948

PAUL P. O'BRIEN,

CLERK



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and

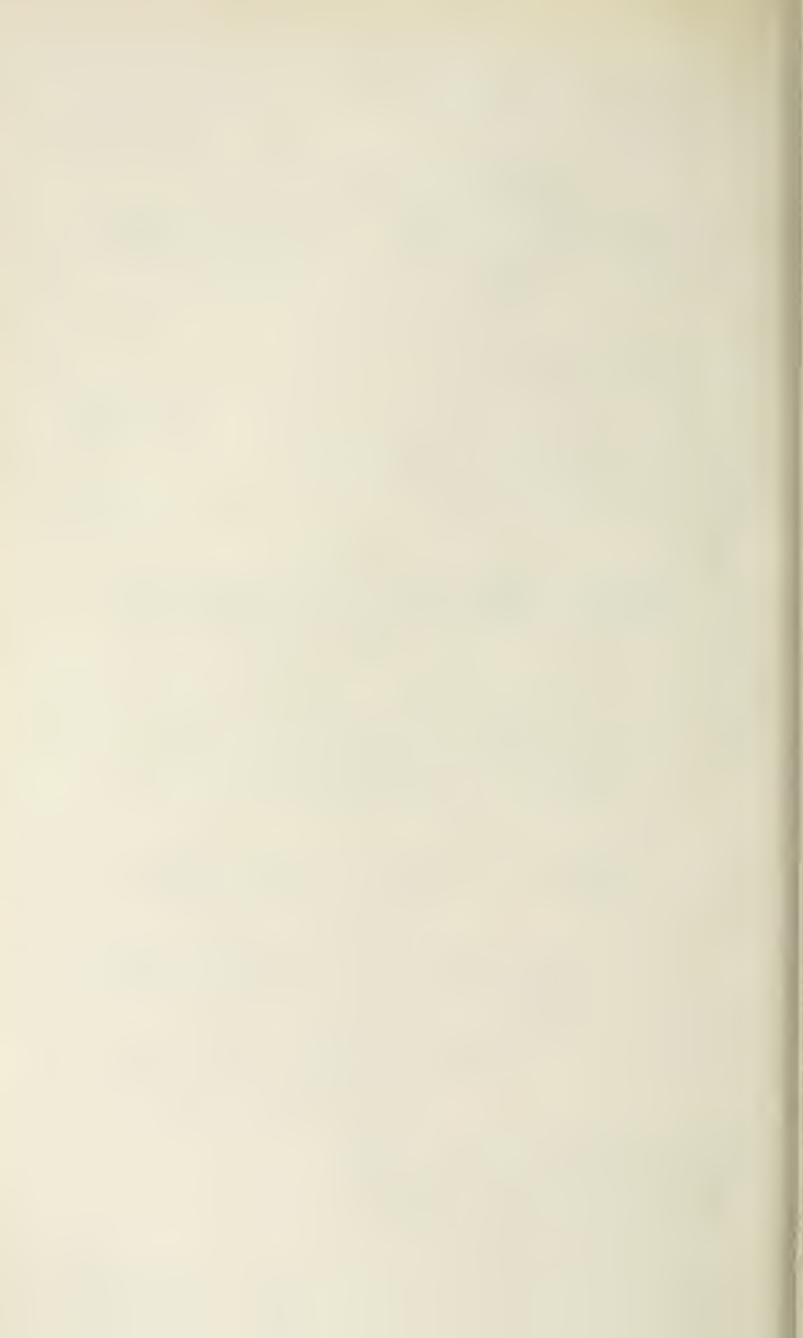
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# INDEX

	<i>Pages</i>
STATEMENT OF THE CASE.....	1
ARGUMENT:	
Sufficiency of the Evidence.....	3
Appellee's Authorities Purporting to Show Sufficiency of the Evidence.....	6
The Gleckman Case.....	7
The Malone Case.....	10
The Guzik Case.....	12
The Johnson Case.....	14
The Murray Case.....	15
Plaintiff's Exhibit No. 11 Showed Entry into a Safety Deposit Box.....	15
CONCLUSION .....	18
APPENDIX:	
Appendix I—Excerpts from Testimony of Robert E. Birch .....	i
Appendix II—Excerpts from Testimony of Harry O. Swanson .....	vi
Appendix III	
Stipulation Concerning Business Records....	viii
Colloquy by Counsel .....	ix

## TABLE OF CASES

	<i>Pages</i>
Crain v. United States, 162 U. S. 625, 644, 16 S. Ct. 959, 40 L. Ed. 1097-----	18
Gleckman v. United States, 80 F. (2d) 394, (C.C.A. 8) -----	6-10
Guzik v. United States, 54 F. (2d) 618, (C.C.A. 7) -----	6, 12, 13
Malone v. United States, 94 F. (2d) 281, (C.C.A. 7) -----	6, 10-12
Murray v. United States, 117 F. (2d) 40, (C.C.A. 8) -----	6, 15
State v. Powell, 245 Pac. 148-----	17
Steinberg v. United States, 14 F. (2d) 564, (C.C.A. 2) -----	17
United States v. Johnson, 123 F. (2d) 111, (C.C.A. 7) -----	6, 9, 14, 15, 18

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APPEAL FROM THE DISTRICT COURT OF THE UNITED  
STATES FOR THE WESTERN DISTRICT OF  
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**STATEMENT OF THE CASE**

Although we believe that numerous assertions in appellee's statement of the case are unsupported by the record, limitations of space prohibit our detailed discussion of them. However, at the bottom of Page 7 of appellee's brief, counsel, referring to the testimony of defense witness Birch, an accountant, state:

"He arrived at a net worth figure substantially in excess of that determined by Mr. Swanson, the Internal Revenue Agent, but his computation also showed that Barcott had understated his income for tax purpose by \$43,686.18. (R. 397.)"

and would have the court believe that this is some sort of an admission by the defendant's witness as to the defendant's culpability. This statement in appellee's brief completely overlooks the whole character of Birch's testimony, which starts on Page 362 of the record, in which Barcott's financial history is developed, commencing with the year 1919 and down through and including the years of the Indictment, and it completely ignores the fact that the testimony quoted by counsel refers to the earlier testimony that Barcott must have had a much greater net worth in 1943 than that stated by the Government's accountant. Birch's testimony refers to the fact that for years and up to the year 1936, Mrs. Barcott, the appellant's wife, made substantial sums in tips which were not reported because of ignorance; it refers to the fact that Mrs. Barcott brought a substantial sum into the community when she married Barcott; and it refers to a settlement received by Mrs. Barcott as the result of a personal injury action. The fair import of Birch's testimony in this regard is that there was a difference in the net worth analysis of the two accountants, and at the very most this testimony could only refer to unreported income prior to the years of the Indictment. It does not refer to nor can it reasonably be construed to refer to admission by Birch that there was unreported income during the years charged in the Indictment.

In support of our conclusions on this point, we have set forth in the Appendix hereto numerous excerpts from the records containing the verbatim testimony of the witness Birch. (See Appendix I.)

## ARGUMENT

### SUFFICIENCY OF THE EVIDENCE

Counsel's argument fails to show that there is sufficient evidence upon which to base a conviction. Out of a 483-page record they have gleaned a scant half dozen lines of testimony and in effect, say: "Here is our evidence of the corpus delicti." Let us examine this testimony as the same is set forth on Pages 8 and 9 of appellee's brief. We are setting out the testimony in full in the Appendix. (See Appendix II.) The answer to the first question set forth merely states that the witness Swanson assumed that the bonds were purchased on the date they bore issue. Hardly a startling conclusion. The next question is answered by the statement that Swanson assumed the money came from the business. It does not state during what years. The witness knew that Barcott had been in business continually since 1919. Then followed two questions of an inconsequential nature, and lastly the statement that "We inquired from Mr. Barcott, he was asked numerous times after the first contact if he had any other income," and surprisingly enough there is no answer at all vouchsafed by Mr. Swanson as to what answers he received from his inquiries. The record is absolutely silent as to any further answers to Mr. Swanson's questions, and Mr. Swanson supplies no further information. We are still in the dark as to how this testimony set out by counsel on Pages 8 and 9, by even the greatest stretch of the imagination, shows any evidence at all of the corpus delicti.



The above testimony places no bottom or foundation to the estimate of net worth, nor the alleged increase thereof during the years 1943, 1944 and 1945, so counsel for the appellee has set forth on Page 9 a brief portion of the testimony of Internal Revenue Agent Neilsen. Let us look at the alleged statements of Barcott as reported in narrative form by the witness Neilsen.

Here is Neilsen's entire testimony in that regard, (R. 72):

"Q. Just state what that discussion was.

"A. I told Mr. Barcott the purpose of investigating such transactions was to determine if the money was used in black market activities, and if the money was properly reported for income tax purposes, and he said 'Well,' he said, 'I have always filed income tax returns in the operation of my restaurant, and I ordinarily accumulate five or six thousand dollars, and purchase United States Savings bonds,' but the particular transaction we were talking about, he said, 'I accumulated the ten thousand dollars to make a loan to a friend who is going to buy a boat, one Mike Kazulan. However, the transaction did not materialize so I now have the ten thousand dollars.'"

In the above excerpt Barcott is reported to have stated that he always filed income tax returns in the operation of his restaurant. It is well to keep in mind that Neilsen does not say what they were talking about until he subsequently used the words "but the particular transaction we were talking about \* \* \*", after which they proceeded to discuss the currency and not the war bonds. Now from Barcott's statement where

is there any evidence of any increased net worth here? No one can deny that he operated the restaurant since 1919, and he has always filed income tax returns as required from 1919 to 1943. How can this possibly be deemed an admission of increased net worth during the years 1943, 1944 and 1945? Then Neilsen has Barcott saying that he, Barcott, ordinarily accumulated five or six thousand dollars and purchased United States Savings bonds. Again it must be borne in mind that at that time they were discussing the currency and not the bonds — otherwise Neilsen would have prefaced his account of the conversation with some statement as to what the parties were talking about. There is nothing at all — not one single syllable of testimony to indicate that Barcott was referring to income derived during the years charged in the Indictment or to even the bonds purchased in those years. The record shows that Barcott had been purchasing bonds since 1936 regularly, and Neilsen in his narrative account of the conversation does not mention any questions he asked Barcot, nor any answers received in response to any queries. The reported conversation is utterly without a predicate and when considered in its entirety and in relation to the other testimony, is merely a reported statement that Barcott from time to time purchased war bonds. We cannot see how such testimony in any way is an admission by the defendant that during the years charged in the Indictment his net worth increased by an amount sufficient to equal the unreported income charged in the Indictment.

## APPELLEE'S AUTHORITIES PURPORTING TO SHOW SUFFICIENCY OF THE EVIDENCE

In attempting to prove that the evidence offered by the Government made out a prima facie of guilt against the defendant, appellee cites five cases, which are the following:

*Gleckman v. United States*, 80 F. (2d) 394  
(C.C.A. 8).

*Malone v. United States*, 94 F. (2d) 281  
(C.C.A. 7).

*Guzik v. United States*, 54 F. (2d) 618  
(C.C.A. 7).

*United States v. Johnson*, 123 F. (2d) 111  
(C.C.A. 7).

*Murray v. United States*, 117 F. (2d) 40  
(C.C.A. 8).

The foregoing cases have three general premises in common, which are as follows:

1. In every case the defendant was engaged in a criminal enterprise.

2. In each of these cases there was some evidence of money received during the fiscal which was *not* reported.

3. In each of the cases where net worth was used to corroborate the evidence already introduced, the increase in net worth was precisely bottomed on a known figure at the beginning of the taxable period.

None of these three general premises are present in the case at bar.

## THE GLECKMAN CASE

Gleckman was a St. Paul "merchant" with extensive holdings in distilleries in both Cuba and Canada. He also had various other holdings and rental property in St. Paul. He kept no record of his accounts. He made no tax returns prior to 1928. In 1928 he consulted an Assistant U. S. Attorney concerning the payment of tax on illegal liquor transactions. He then for the first time made returns for 1925, 1926 and 1927. He also received profits from sales of stocks and bonds and received rents. He drew a salary from one concern and shared in the profits of another as a partner. He specifically understated his salary and reported none of the profits from the partnership. Investigation revealed large sums of money received and deposits made during 1929 and 1930, not reported or otherwise disclosed. \$15,000 was received and deposited by him in a bank account under an assumed name. In one of the years unexplained deposits of \$92,000 were made and used for Gleckman's own purposes. He also made excess tax payments in 1929. Two financial statements were introduced in evidence wherein defendant stated that they were true and correct statements of his financial condition. On October 29, 1929, the first statement showed net worth of \$64,200. On March 25, 1930, the second statement showed net worth of \$217,373. The court said as follows:

*"We think there was in this case substantial circumstantial evidence that Mr. Gleckman did have a business outside of that described in his return and that at least some of his deposits were*

*derived from it. \* \* \* and the only fair inference is that he was engaged in illegal liquor transactions."* Page 399. (Italics ours.)

As to the property statements, the court said as follows:

"An analytical comparison between the two statements make it clear that there were omissions in the first statement of property included in the second, and substantially different valuations were made of the same properties — those in the second statement being higher. But notwithstanding all allowances, the two property statements afforded *some testimony* of largely increased net worth between the two dates." Page 399. (Italics ours.)

Concerning the excess payments of tax in 1929, the court said:

"Although the mere payment of the excess assessment made against him for 1929 might not, of itself, have afforded very convincing proof that he believed he owed the tax, the circumstances under which the amount was computed by his own agent and the tax was paid by him before assessment tended to show that the moneys deposited in the banks were received by Mr. Gleckman *as income from business.*" Page 400. (Italics ours.)

In summation, the court reached the conclusion that a *prima facie* case had been made out, using the following language:

"The bank deposits and large items of receipts by Mr. Gleckman do not, therefore, stand entirely alone as the sole proof of the existence of a tax due from him, but they are identified with business carried on by him and so are sufficiently shown to be of a taxable nature." Page 400.



The distinctions between the Gleckman case and the case at bar are readily apparent. Gleckman was not convicted on the mere showing that his net worth increased during the taxable years, as the court said the *financial statements afforded some testimony of larger increased net worth*. Thus evidence of defendant's net worth during the period was founded on a known net worth as evidenced by financial statements. In our case net worth at the beginning of the year 1943 is merely assumed from an examination of defendant's known assets conducted in the year 1946. Other distinguishing features of the Gleckman case are apparent:

He was engaged in an illegal business and reported no profits whatsoever therefrom; he understated his reported salary and reported nothing from a partnership; he kept no records whatsoever; his bank deposits were withdrawn from day to day for his own convenience and use; and he voluntarily paid additional tax in 1929 before assessment was made, indicating there was income from an unreported source.

Appellant herein was not engaged in any illegal enterprise and he reported income for the years in question totalling nearly \$40,000. The importance of this reported income cannot be disregarded in a case of this character, for as was said in *United States v. Johnson*, 123 F. (2d) 111, Page 124:

"If Johnson had reported no income for those years, a different situation would have been presented. We have not hesitancy in holding that the verdict cannot be supported upon this theory."



Where in the *Gleckman* case defendant kept no records at all, in the case at bar appellant kept a day to day record of his business. Only the first six months of the year 1943 were not available, and the appellee by stipulation concedes that this loss was through no fault of the appellant. (R. 401.) We have set forth this stipulation in the Appendix. (See Appendix III.)

### THE MALONE CASE

In *Malone v. United States*, 94 F. (2d) 281, defendant was a member of the Illinois State Tax Commission and it was established by evidence that he received bribes during the taxable years from various corporations. None of this money was accounted for in the income tax returns. The appellate court determined that the vast amount of money which he received during these years could be attributed to an illegal and unreported source and that large amounts of money received and deposited during the taxable year, *while of itself insufficient to convict*, under the circumstances shown by the record was rather convincing evidence in support of the charge. The court said, at Page 287:

“We have heretofore set forth rather fully the testimony and shall not do so again. The fact that the defendant, in addition to his other reported Income, deposited in the bank such large amounts of currency on so many occasions *under the circumstances shown by this record, while of itself, not sufficient*, is nevertheless a rather convincing circumstance in support of the charge.

“It is said this language is inapplicable to the present case inasmuch as Gleckman was secretly in the illicit liquor business; that in the instant case there is no evidence of any business conducted by the defendant other than that from which defendant’s income was accounted for in his returns. We do not agree with this contention. The fact is, there is evidence to support the conclusion that *defendant had a rather lucrative income in connection with his membership on the Tax Commission*. From such source, it may be concluded, he received \$32,500 in 1927; \$31,000 in 1928; \$15,000 in 1929, and \$41,000 in 1930. The fact that the final assessments against corporations from whom this money was received, were decreased, in connection with the circumstances under which the defendant received the money, was sufficient to justify a jury in believing the same was received by the defendant as bribes, and that at least a sizeable portion of the currency deposits came from such a source and constituted a part of defendant’s income.” (Italics ours.)

In the *Malone* case the government presented evidence of an illegal source of income received during the taxable year which was never reported. Large bank deposits made, withdrawn and used by the defendant during the year was a circumstance only to corroborate and bolster the main evidence.

In the case at bar the purchase of bonds by appellant is merely a dangling item with no other evidence to which it can become attached and to which it can be suspended. The *Malone* case further emphasizes the necessity of a foundation upon which to base net worth, an ingredient wholly lacking herein, in the following language on Page 286:

“The government, in rebuttal, introduced in evidence the financial statement made by the defendant to Greenebaum Sons Bank & Trust Company, June 8, 1922, showing cash on hand and in bank \$6,000, and also a financial statement made by the defendant to Jefferson Park National Bank on June 30, 1928, showing his cash on hand and in bank in the sum of \$101.59.”

The *Malone* case is not predicated on net worth but holds that net worth was merely a circumstance, and in this connection we again quote from Page 286 as follows:

“The evidence that defendant’s net worth during the years in question was increased in an amount somewhat similar to the amount of the currency deposits is not without significance.”

### THE GUZIK CASE

In *Guzik v. United States*, 54 F. (2d) 618, the illegal enterprise was gambling. Large bank accounts, one in an assumed name, was one of the elements introduced to corroborate evidence that the defendant received vast sums of money during the taxable year upon which he failed to report and pay tax. The court sets forth a summary of all the evidence introduced against Guzik in the following language at Page 619:

“In order to prove gross income, and therefore probable taxable income of the appellant, the government introduced the following evidence: Bank deposits in two banks (one account was under an assumed name) totalling \$953,303.93; cashier’s checks cashed by appellant’s physician on stock alleged to have been transferred to him by appellant in order to evade surtax; the testimony of a

general cashier of appellant's gambling establishments that he, under the instruction of the appellant, converted surplus from the operation of a gambling business into cashier's checks (totalling \$147,500), which he delivered to appellant's messenger."

On Page 16 of appellee's brief, portions of the *Guzik* case are quoted with asterisks appearing therein showing an omission. A portion of such omission reads as follows:

"In the instant case, part of the deposits, \$99,500, were identified by the witness Ries, as being net profit. There was ample evidence to warrant a jury in finding that the dividends received by Dr. Omens, amounting to \$36,750, were part of appellant's income."

However, appellee does include the following language in its quotation:

"\* \* \* there was direct evidence to the effect that a considerable part of the large sums deposited in appellant's bank accounts came from the operation of gambling businesses in a suburb of the city of Chicago."

Net worth does not even enter into this case. The evidence is direct that the money in defendant's bank accounts came from profits from the gambling business. In one single transaction \$99,500 was proven to be profit. The most *Guzik* ever paid in tax was on the basis of \$24,000. It was not the excessively large bank accounts upon which *Guzik* was convicted. This was but a circumstance connected with the other evidence of large profits taken out of the gambling business.

## THE JOHNSON CASE

In *United States v. Johnson*, 123 F. (2d) 111, one of the theories upon which the government sought to convict the defendant for income tax evasion was on the basis of greater expenditures over reported earnings. Johnson was a notorious gambler as evidenced by the following quotation from Page 123:

“Johnson admittedly was a professional gambler and had been for many years. If he had any other business of consequence, the record does not disclose it. He was not just an ordinary gambler, but one of towering stature among that fraternity. The co-defendants were admittedly in the same business. They operated brazenly and notoriously, and, so far as this record discloses, without interference or restraint during the period covered by the indictment. That the field was a fertile one is evidenced by the huge sums of money which apparently passed through their hands.”

On Page 19 of its brief appellee quotes at length from the *Johnson case*. This quotation effectively supports our contention herein. The appellee apparently used this quotation for the reason that it lends some credence to the expenditure theory. What appellee has overlooked is that the court in the *Johnson case* insisted on a foundation from which it could be determined what assets the defendant owned as of a certain date.

“This theory was sought to be established by proving a statement purported to have been made by Johnson on January 1, 1932, that he had cash on hand in the amount of \$78,000.” *U. S. v. Johnson*, 123 F. (2) 111.



Without evidence of a foundation upon which to build the theory cannot operate. You cannot pour water into a bottomless barrel and expect it to fill and overflow.

### THE MURRAY CASE

In *Murray v. United States*, 117 F. (2d) 40, defendant was Director of Public Works of Kansas City, Mo. During the taxable year he received large sums of money from Pendergast and others as consideration for special favors. The money was not reported as income and indictment followed. Murray never denied receipt of the money in the taxable year, but claimed it was a gift and not income.

“Defendant does not on this appeal challenge the correctness of the Government’s claim as to the amount and the items of his income, nor did he do so in the lower court. He denies, however, that the excess of his receipts during the years in question over what he reported was in fact income but claims that these sums were given to and received by him as gifts.” Page 42.

The lack of resemblance to the case at bar is too apparent for further argument.

### PLAINTIFF’S EXHIBIT NO. 11 SHOWED ENTRY INTO A SAFETY DEPOSIT BOX

Appellant objected to the introduction in evidence of Plaintiff’s Exhibit No. 11, the safety deposit slip purporting to show that appellant entered the box shortly after his interview with the agent Neilsen, on the grounds of incompetency, irrelevancy and imma-



teriality. (R. 104.) The error of allowing this evidence to go before the jury is epitomized in appellee's own argument to this court on Page 26 of their brief:

"In view of the defendant's admitted accumulation of large sums of currency in his safety deposit box, and business safe, these unexplained entries into this second box were circumstances pertinent to the issue of withholding and secreting income."

This inflammatory and prejudicial evidence was not limited to the introduction of the exhibit but was enlarged and made indelible in the minds of the jury by arguments of counsel to the jury. (R. 417, 420, 432, 433.)

Of what possible relevancy could this testimony be? No evidence was submitted to connect up the contents of the box. It was never claimed that the government was seeking undisclosed assets. Indeed, the whole government case is predicated upon assets known, counted and particularly described, right down to the last penny. If we view the evidence in its entirety, of what possible relevancy could it be that appellant went to one, two or a dozen safety deposit boxes, unless the appellee could show by circumstances that lost or concealed assets which it was following were traced thereto and vanished into the void at that point on the trail.

There are numerous cases illustrative of the principle set forth in appellant's opening brief to the effect that evidence without probative value is inadmissible.

Among these is *Steinberg v. United States*, 14 F. (2d) 564 (C.C.A. 2), where the following appears at Page 567:

"The fundamental object of the prosecution was to show that Steinberg during 1921 received income — i.e., made gains — from liquor sales. Presumably to that end there was admitted in evidence a photostat of some or all (we cannot be sure which) of the pages of an account or memorandum book, found by a visitor to Steinberg's office during the latter's absence, behind a row of books standing in a bookcase \* \* \*. But the book was most injurious, because (if for no other reason) some entries suggested that bribes had been paid to prohibition or 'revenue' officials. No legal question will be served by dwelling on this document \* \* \*; under the circumstances we think it was serious error to admit, because *it was not probative* and was inflammatory." (Italics ours.)

In the case of *State v. Powell*, 245 Pac. 128 (Kan. 1926) where the defendant was being prosecuted for the felony of knowingly accepting bank deposits after a bank had become insolvent, and where the contested issues were whether the bank was insolvent and Powell, as vice-president, knew it was insolvent, there having been substantial evidence admitted to show that over a period of years the bank assets had been misappropriated by its officers, and it having been shown that Powell's salary as vice-president was \$200 per month, evidence offered and objected to that Powell owned and resided in a home worth \$20,000 was held impertinent and irrelevant to the issues in the case and reversible error.

## CONCLUSION

From the foregoing arguments, we submit to this Honorable Court that the appellee has been unable to defend its position in this cause. May we respectfully suggest that the language originally expressed in the case of *Crain v. United States*, 162 U. S. 625, 644, 16 S. Ct. 959, 40 L. Ed. 1097, and subsequently repeated in the case of *United States v. Johnson*, 123 F. (2d) 111 (C.C.A. 7) is most appropriate here:

“\* \* \* nor ought the courts, in their abhorrence of crime, nor because of their anxiety to enforce the law against criminals, to countenance the careless manner in which the records of cases involving the life or liberty of an accused are often prepared. Before a court of last resort affirms a judgment of conviction of, at least, an infamous crime, it should appear affirmatively from the record that every step necessary to the validity of the sentence has been taken \* \* \*.”

Respectfully submitted,

GAGLIARDI, URSICH & GAGLIARDI,

and

FRANK HALE,

*Attorneys for Appellant.*

## APPENDIX I

### EXCERPTS FROM TESTIMONY OF ROBERT E. BIRCH

Record 367:

"Q. So then, this statement that you have prepared carries the amount which was allowed to be exempt from law?

"A. That's right.

"Q. And those years he paid the taxes, did you figure the amount of tax that he paid, and did you figure the amount that he earned that year?

"A. That's right.

"Q. Now, each of these years, you have you say, accumulative, accumulating from year to year?

"A. That's right."

Record 368 and 369:

"Q. What was the amount of Mrs. Barcott's earnings during that period, of you say, twenty years, or nineteen years?

"A. We took it on a basis of sixteen years.

"Q. Sixteen years?

"A. There has been a total of thirty-six thousand dollars.

"Q. And what was the total amount then, between the two earnings, the earnings of the business and Mrs. Barcott as her own individual tips, without considering any wages she was paid?

"A. For the full time 1919 through —

"Q. Yeah.

"A. — 1945?

"Q. Yes.

"A. That would be a hundred and sixty-six thousand, two hundred and thirty-seven dollars and fifty-three cents."

Record 373 and 374:

"A. Well, we examined the bank—we obtained a list of the time of certificate of deposits the bank had, the National Bank of Washington, for the years 1937 through 1943; we examined his U. S. Savings Bonds, series D, E, and G; we went down to his safe deposit box, we hadn't examined that, and obtained the amounts to the issue dates of the various years. Those were for the years 1940 through 1945. His U. S. Bonds, series B, the information was obtained from a tax file of another firm of accountants here in town. We examined the savings account at the Pacific First Federal Savings and Loan. That ran from 1930 through 1945. The Alpha Corporation was from 1935 to 1945. The savings account at the National Bank of Washington was examined, that was from 1937 to 1945. The savings account at the Tacoma Savings and Loan Association was examined from 1927 — I believe that was closed out in 1931. The boat 'Ranger,' the cost of that was obtained from Mr. Barcott. The real estate contract, that was for his son Anton, was examined, that was for the years 1937 to 1945. Conditional sales contract with his son Anton was examined from 1937 through 1945. The investment in the California Oyster House, the information was obtained from Mr. Barcott."



Record 374 and 375:

"A. Well, in 1919 — do you want his net worth or just —

"Q. Yeah, the net worth each year.

"A. All right. In 1919 the net worth increased two hundred and fifty dollars. In 1920, it increased thirty-seven hundred dollars, that's over 1919.

"Q. In that increase does that take in consideration the tips of Mrs. Barcott, or does it not, which?

"A. In 1920?

"Q. Yeah. 1921, and 1920.

"A. Yes, it starts with 1920, it does take into consideration."

Record 376, 377 and 378:

"Q. Now will you give us his total net worth by year, as cumulative? Starting from 1920 to 1919 without the five thousand.

"A. All right. In 1919 it was fifty-two fifty — these are consecutive years, I won't read the years —

"Q. Yes.

"A. Eighty-nine fifty, that's eight thousand nine hundred and fifty dollars; twelve thousand eight hundred and fifty dollars; sixteen thousand five hundred dollars; nineteen thousand six hundred and fifty dollars; twenty-three thousand two hundred dollars; twenty-eight thousand six hundred and fifty dollars; thirty-four thousand one



hundred dollars; thirty-nine thousand five hundred and fifty dollars; forty-five thousand; fifty-two, eight fifty-one, ninety-three; fifty-eight, three O one, ninety-three; sixty-four, three fifty-one, ninety-three; sixty-eight, seven O one, ninety-three; seventy-three O fifty-one, ninety-three; seventy-seven, four O one, ninety-three; eighty-one, seven fifty-one, ninety-three; eighty-four, two sixty-five, sixty-eight; eighty-three, four fifty-six, eighty-seven; eighty-five, eight O three, fifty-eight; eighty-seven, nine O three, fifty-eight; ninety-one, four ninety-four, eighteen; ninety-four, three forty-one, sixty-seven; ninety-nine seven thirty-three, twenty-one; and 1943 it was a hundred and eleven thousand, two thirty-four, fifty-three; '44 it was a hundred and nineteen, six sixty-one, seventy-six; and '45 it was a hundred and twenty-nine thousand two hundred and fifty-two dollars and ninety-nine cents.

“Q. What was it at the end of the year 1942?

“A. At the end of nineteen hundred and forty-two it was ninety-nine thousand, seven thirty-three, twenty-one.

“Q. And that was his net worth at that time?

“A. That's right.

“Q. After you deducted all the living expenses. Is that true?

“A. That is correct.

“Q. And now —

“THE COURT: Why don't you carry that through '43 — or '44 and '45?

“Q. What was it in 1944, at the end of the year 1944?

"A. It was a hundred and nineteen thousand, six sixty-one, seventy-six.

"Q. And at the end of the year 1945?

"A. A hundred and twenty-nine thousand, two fifty-two, ninety-nine.

"Q. Now, have you checked the number of bond and the amount of United States bond that Mr. Barcott has?

"A. We did on the series D, E and G.

"Q. Well, did he have any other bond?

"A. He had some series B bonds.

"Q. When were they purchased?

"A. Well, they were purchased in 1936.

"Q. '36. And the total amount of bond, how much did he have? What become of the 1936 bond, the series B?

"A. Those were cashed.

"Q. When were they cashed?

"A. I believe in 1946.

"Q. '46. That didn't include in this report. In 1945, then, how many United States bond did he have? '45, at the end of 1945.

"A. At the end of '45 he had seventy-eight thousand, four hundred and fifty dollars.

"Q. In United States bond. In adding all his asset, what other property did you take in consideration?"

Record 397:

“Q. And you’d stake your reputation as a certified public accountant, on that statement?

“A. A possibility, that is correct.

“Q. Now taking all the figures that you’ve put together here with all these seven dollars and a half every day over all these years, and down to the item in exhibit number three, you still show an understatement of income, don’t you? That they are still liable in income tax.

“A. No, I wouldn’t say that.

“Q. Well, don’t you show a difference of forty-three thousand, six hundred and eighty-six dollars and eighteen cents, which is an understatement by them —

“Oh, I see what you mean. Excuse me, I didn’t quite understand.

“Q. Isn’t that correct?

“A. Yes, that’s right.”

## APPENDIX II

### EXCERPTS FROM TESTIMONY OF HARRY O. SWANSON

Record 136 and 137:

“Q. And after you examined the date, you assumed that Mr. Barcott, all he had in that box in December 31, 1942, was \$23,000?

“A. That’s right.

"Q. You had no other information but your own assumption.

"A. That's right.

"Q. Then the bonds were purchased after January 1, 1943? The bonds that you inventoried were purchased after January 1, 1943?

"A. No, sir, that's not quite true. We inventoried all that were in the box, some were purchased prior to that date.

"Q. Some were purchased prior to that date, and some were purchased prior—after that date?

"A. Yes, that's right.

"Q. Those who were purchased prior to that date, you assumed that he had them before January 1, 1943?

"A. We — from the issue date we determined they were purchased at a certain time, and if they were issued prior to January 1, 1943, we assumed they were purchased prior to January 1, 1943.

"Q. And what he purchased after January 1, 1943, then you assumed he purchased on that time?

"A. At the issue date, yes, sir.

"Q. Issue date. And you assumed that he got that money from the business?

"A. Yes, I had no other knowledge.

"Q. You had no other knowledge, you made no other inquiry?

"A. I made other inquiry, yes, sir.

“Q. Where did you inquire?

“A. We inquired from Mr. Barcott, he was asked numerous times after the first contact if he had any other source of income.

“Q. Just asked the sources of income?

“A. That’s right.

“Q. Did he tell you that he had been in business since 1919?

“A. That’s right.

“Q. That he, his wife, and his son, operate the restaurant since 1919 continuously, the California Oyster House?

“A. I am not sure about the other members of his family, but he said that he had operated the restaurant —

“Q. Didn’t he say he and his wife and the two sons operate it?

“A. He said his wife had been there part of the time.”

### APPENDIX III

#### STIPULATION CONCERNING BUSINESS RECORDS

Record 401:

“MR. POMEROY: There was a stipulation to be agreed upon, and also I would like to call Mr. Barcott back for a few more questions.

“The stipulation is to the effect that Thomas F. Ray was a qualified attorney engaged in the

practice of the law in the City of Tacoma, from 1906 until his death in 1944; and John Barcott was a client of Mr. Ray for a period of about fifteen years, beginning about 1928; that about May, 1943, Mr. Ray removed all of his office records and files from his office in the Puget Sound Bank Building, Tacoma, to his daughter's home near the Lakeside Boat Club, American Lake; and that after his death, sometime up until the present time, these files have become lost, scattered, or destroyed."

"MR. HALE: There is a stipulation between counsel for both sides, if Your Honor please."

"THE COURT: Very well, the stipulation will be entered as a fact. The Court heard the reading of the stipulation in reference to Mr. Barcott's employment, and what records Mr. Ray had during that time was lost after the death of Mr. Ray. That is a statement of fact."

## COLLOQUY BY COUNSEL

Record 402:

"MR. GAGLIARDI: I have Mr. Birch for a little further testimony, Your Honor. I had forgot a few questions concerning dividends and interest, which I didn't question him. Mr. Birch, will you—

"MR. POMEROY: Well, I'll stipulate that he has dividends and interest and they are approximately the same as what we have in there.

"MR. GAGLIARDI: And that it is reported in the income tax —

"MR. POMEROY: It is reported."





In The United States  
Circuit Court of Appeals  
For the Ninth Circuit

*Serial 2507*  
JOHN BARCOTT,

*Appellant,*

vs.

UNITED STATES OF AMERICA,

*Appellee.*

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Petition for Rehearing

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APPEAL FROM THE DISTRICT COURT OF THE UNITED  
STATES FOR THE WESTERN DISTRICT OF  
WASHINGTON, SOUTHERN DIVISION

---

HONORABLE CHARLES H. LEAVY, *Judge*

---

GAGLIARDI, URSICH & GAGLIARDI  
and  
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In The United States  
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Petition for Rehearing

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APPEAL FROM THE DISTRICT COURT OF THE UNITED  
STATES FOR THE WESTERN DISTRICT OF  
WASHINGTON, SOUTHERN DIVISION

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HONORABLE CHARLES H. LEAVY, *Judge*

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GAGLIARDI, URSICH & GAGLIARDI  
and  
FRANK HALE,  
*Attorneys for Appellant.*

Office and Post Office Address:

1116 Washington Building, Tacoma 2, Washington.

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**In The United States  
Circuit Court of Appeals  
For the Ninth Circuit**

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JOHN BARCOTT,

*Appellant,*

vs.

UNITED STATES OF AMERICA,

*Appellee.*

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**Petition for Rehearing**

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APPEAL FROM THE DISTRICT COURT OF THE UNITED  
STATES FOR THE WESTERN DISTRICT OF  
WASHINGTON, SOUTHERN DIVISION

---

**PETITION FOR REHEARING**

The appellant, John Barcott, by and through his attorneys of record, respectfully petitions this Honorable Court for a rehearing of the above entitled cause on the grounds and for the following reasons:

I.

The opinion of the Court indicates, without so declaring, that when a taxpayer has filed an income tax return which is presumed to be correct, a showing of assets acquired or expenditures made by him is sufficient to overcome the presumption of correctness of the return



and is prima facie evidence that all of his income has not been reported, thereby establishing the necessary corpus for criminal prosecution.

## II.

The opinion of the Court indicates, without so declaring, that an increase in net worth for a given year is established by a mere showing that certain assets were acquired by the taxpayer in excess of his reported income for a certain year without the necessity of showing what the taxpayer's net worth might have been at the commencement of the taxable year.

## III.

The Court's opinion indicates that it was based upon facts which were not in the case, namely, that at the time the appellant surrendered his stock in Fishermen's Packing Corporation it was "income producer."

## IV.

Reaching the conclusion that the appellant's surrender of stock and the purchase of some items of furniture on the instalment plan was sufficient for the jury to infer that the appellant was impecunious prior to January 1, 1942, indicates that the Court has failed to consider that even on the Government's theory of the case the appellant was worth at least \$53,000.00 as of December 31, 1941, making the above mentioned inference impossible.

## V.

The opinion indicates that the Court has not applied the doctrine whereby all circumstances submitted in evidence must exclude every other hypothesis but that of guilt.

## ARGUMENT

In analyzing the opinion of the Court in this cause, counsel for the appellant feel that they have failed to clarify the appellant's position, both as to law and as to facts. It was intended to show that the several bits of evidence introduced by the Government dwelt with only one phase of the crime, namely, criminal agency, and that no facts were introduced which proved the other element, to-wit, the corpus.

### AS TO THE CORPUS

The appellant has made the following contentions in this case:

(1) That he has filed income tax reports which are presumed to be correct.

(2) That there has been no evidence introduced of any unreported income from the sources listed in his reports.

(3) That there has been no evidence of any unreported source of income.

It is conceded by the authorities and text writers that the corpus delicti consists of two elements: First, the body of the crime, and second, the criminal intent or agency. In this brief petition we quote only one definition from Vol. 1, Words and Phrases, Second Series, page 1066:

"The 'corpus delicti' is made up, \* \* \* says Mr. Best, 'of two things: First, certain facts forming its

basis; and, secondly, the existence of criminal agency as the cause of them." *State v. Rogoway*, 78 Pac. 987, 989, 45 Or. 601, 2 Ann Cas. 431 (quoting Best (Ed. 1883 Sec. 442).

An analysis of the facts shows that all of the Government's proof in this case goes to the second element only. There is no showing that the income tax statements filed by the appellant failed to include all of the income from the sources listed therein. The reports are presumed to be correct and there is no evidence of a single item of income received from the reported sources which was not included in the reports by the appellant. If an unreported source of income had been shown, the arguments of the Government and the opinion of the Court in this case would be appropriate, as then there would exist a corpus upon which all other evidence of intent, consciousness of guilt, etc., would have a basis upon which to operate. In our case circumstances offered to prove the *delict* operate only on other circumstances of a similar nature. Even if this evidence were increased a hundred fold over what was offered it would still go only to criminal agency and would fail to make a case without proof of the corpus.

If it is the ruling of this Court that the burden of proving the corpus of an income tax evasion case is met by showing that the taxpayer acquired assets or made expenditures in excess of the reported income for the given year, and that the presumption of correctness of an income tax return is dissipated thereby, it is sincerely requested that this Honorable Court clarify its opinion in this regard, for in matters as serious as these, no doubt or room for misconstruction should be permitted to exist.

## **AS TO THE NET WORTH**

All of the cases cited to this Honorable Court pertaining to the admissibility of evidence of net worth indicated that a prerequisite to the introduction of such evidence was actual proof of the net worth at the commencement of the period. If it is the opinion of the Court that any increase in assets over reported income for a given year shall be deemed to be an increase in taxpayer's net worth, and that no other anchor, basis or foundation is needed, it is respectfully urged that the opinion of the Court be modified so as to clearly indicate this change and departure from previous decisions.

## **AS TO SURRENDER OF APPELLANT'S INCOME PRODUCING STOCK**

On page 2 of the opinion the following appears:

"The stock was an income producer. A dividend of 6 per cent was paid on it within 20 days after the surrender by appellant of a portion of the shares in payment of the note."

There was no evidence in the case which we can recall that showed appellant's stock to be an income producer prior to its surrender. We cannot see how the Court can say that had appellant possessed available funds at the time he would not have sold dividend paying stock to discharge an obligation on a note when there is no evidence that any dividend was ever declared prior to the sale. We earnestly submit that the Court was in error as to this fact, and by reason thereof an injurious inference was drawn from the evidence.

**AS TO THE INFERENCE  
THAT APPELLANT WAS WITHOUT  
FUNDS PRIOR TO THE YEARS  
IN QUESTION**

The Court said on page 4 as follows:

“The jury were also entitled to draw from the evidence the inference that had appellant possessed available funds at the time he would not have sold dividend paying stock to discharge an obligation on a note or have purchased furniture on the installment plan.”

The record in this case is replete with evidence showing that the appellant was far from impecunious prior to January 1, 1942. He had a bank account with the general average of \$1,000; he was the owner of conditional sales contracts; owned his own home; owned his restaurant business; and was also possessed of a large quantity of United States Savings Bonds prior to 1941. According to the Government's own testimony he was worth at least \$53,000 on December 1, 1941. We cannot conceive of the Court reaching the conclusion which it did in the foregoing quotation if it had considered the appellant's admitted net worth. Our failure to stress this fact in our previous briefs and arguments may well have been the reason for the Court's failure to consider it in analyzing this particular evidence. The fact remains, however, that when it is considered, it makes the Court's conclusion a practical impossibility, and a rehearing should be granted to the appellant in this regard.

## AS TO THE CIRCUMSTANTIAL EVIDENCE INTRODUCED BY THE GOVERNMENT

Several items of evidence were introduced by the Government which were supposed to show circumstantially that the appellant was guilty of income tax evasion. We submit that each and every item of evidence listed below is just as consistent with innocence as it is with guilt, and that none of them were proper to be considered by the jury.

1. Possession of war bonds acquired during the years in question in excess of reported income for that year.

We believe it utterly impossible for any human agency to say that such a purchase can mean only one thing, to-wit, the purchase of bonds with current income. It seems incredible to say that such purchase could not have been from prior savings. Common knowledge tells us that in innumerable instances this is exactly what happened, which proves its consistency with innocence.

2. Surrender of stock and purchase of furniture on the installment plan.

We know of no rule for human behavior which invariably indicates that when a man sells stock (even dividend producing stock), or buys furniture on the installment plan, said man is without funds or assets with which to pay for them. The reasons for his so doing are multiple. He may wish to pay for his purchases out of future income. He may reason that savings expended are seldom replaced. He may wish to retain his present assets for



other purposes. If the Court will reconsider this evidence in the light of human experiences, we feel certain that many hypotheses will present themselves which are perfectly consistent with the appellant's innocence.

3. Entry into another safety deposit box.

We must agree with the Court that the time element involved in this transaction may lend a suspicious cast to the appellant's action. But convictions cannot be sustained on suspicions. Was it reasonable for the appellant to visit his box for legitimate purposes? It must be concluded that it was, even if the Court and jury believe it was for another purpose. Suppose the appellant entered his box to deposit or remove certain business papers, which is not an unreasonable supposition. The great injustice worked upon the appellant by allowing the jury to speculate as to the purpose of the entry apparent.

4. Changing small currency for that of large denominations.

It is admitted that one who was attempting to evade income taxes might use this method to reduce the bulk of his holdings. But this possibility does not foreclose all other reasonable possibilities. Distrust of banks has led to the lifetime practice of hoarding cash, in some instances. Those who make a practice of saving cash can and do conserve vault space by converting their savings into larger bills, but this does not make them dishonest. Many a safe deposit box has been opened in the process of probating an estate which revealed quantities of large denomination bills, without the slightest question of surreptitious acquisition thereof. This has been especially true in the cases of foreign born citizens. That a hypothesis

consistent with innocence exists, is sufficient to make the use of this type of circumstantial evidence inadmissible.

Webster defines "hypothesis" as "something not proved, but assumed or conceded for the purpose of argument." It is a mere supposition. The appellant did not have to prove his actions in the foregoing instances were innocent. It is enough that theoretically they could have been. This is the law's great protection (not only for this appellant, but for all of us), against conviction by promiscuous use of circumstances which may or may not prove guilt.

## CONCLUSION

In conclusion, we submit that one inescapable fact presents itself in this case. That is, that the appellant filed income tax returns for the year in question which are presumed to be correct, contain the restaurant business as a source of income, and the returns as made stand unchallenged and unimpeached, without a shred of evidence that any of said returns is erroneous inasmuch as a single dollar. Circumstantial evidence of criminal agency has been offered but no evidence was offered to show the existence of any corpus upon which the circumstances can operate. To sustain a conviction the Court must find that in income tax evasion cases a corpus is established whenever the acquisition of assets is simply greater than the reported income for a given year. We have found no reported case which has gone to this extent. A rehearing on this question is respectfully requested.

It is further submitted that the case also should be considered on the basis that the Appellate Court regarded it as a fact that the appellant's stock was income producing

when he disposed of it, as well as for the reason that the Court failed to consider that the appellant was worth a minimum of \$53,000 when it reached the conclusion that it could be inferred that the appellant was impecunious by reason of his sale of stock and purchase of some items of furniture on conditional sales contract.

Furthermore, a rehearing is requested to enable the Court to further examine into the circumstantial evidence submitted into the case for the purpose of testing it with the doctrine of hypotheses of innocence.

If, after a rehearing, this Court should adhere to its original decision, in order to prevent future confusion on a highly important and most serious question, it is requested that an opinion be delivered which sets forth the proposition that acquisition of assets in excess of reported income will overcome the presumption of correctness of a filed return and will establish a corpus for criminal prosecution. In this event it also earnestly requested that the opinion set forth the proposition that acquisition of assets in excess of reported income for a given year is regarded as an increase in the taxpayer's net worth, and no other basis or foundation is needed to support the inference.

Respectfully submitted,

GAGLIARDI, URSICH & GAGLIARDI,  
and  
FRANK HALE,

*Attorneys for Appellant.*

No. 11804

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United States  
Circuit Court of Appeals  
For the Ninth Circuit.

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KENNEDY NAME PLATE COMPANY, a Corporation,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

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Transcript of the Record

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Upon Petition to Review Decision of the Tax Court  
of the United States

FILED

JAN 28 1948

PAUL P. O'BRIEN,



No. 11804

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United States  
Circuit Court of Appeals  
For the Ninth Circuit.

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KENNEDY NAME PLATE COMPANY, a Corporation,

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Upon Petition to Review Decision of the Tax Court  
of the United States

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# INDEX

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

	PAGE
Answer .....	29
Appearances .....	1
Certificate of Clerk.....	164
Decision .....	68
Designation of Contents of Record on Review..	162
Docket Entries .....	2
Excerpts From Transcript of Hearing.....	75
Opening Statement on Behalf of Petitioner	76
Opening Statement on Behalf of Respond- ent .....	79
Findings of Fact and Opinion.....	33
Findings of Fact.....	34
Opinion .....	52
Witnesses, Petitioner's:	
Hayek, Joseph W.	
—direct .....	154
Kennedy, William James	
—direct .....	80
—cross .....	113
—redirect .....	123

Miller, Charles W.	
—direct .....	128
—cross .....	142
Thorson, Carlisle John	
—direct .....	145
Motion to Vacate and Set Aside the Memorandum Findings of Fact and Opinion.....	66
Notice of Filing Petition for Review.....	74
Order Denying Motion to Vacate and Set Aside Memorandum Findings of Fact and Opinion Heretofore Entered.....	68
Petition .....	4
Exhibit A—Notice of Deficiency.....	16
Petition for Review.....	69
Statement of Points for Petitioner and Designation for Printing Under Subdivision 6 of Rule 19 .....	165

## APPEARANCES

C. EARLE MEMORY,

PRESTON D. OREN,

For Taxpayer.

E. A. TONJES,

For Commissioner.

The Tax Court of the United States  
Docket No. 6695

KENNEDY NAMEPLATE COMPANY,  
A Corporation,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

DOCKET ENTRIES

1944

Dec. 11—Petition received and filed. Taxpayer notified. Fee paid.

Dec. 11—Copy of petition served on General Counsel.

Dec. 27—Entry of appearance of C. Earle Memory as counsel filed.

1945

Feb. 5—Answer filed by General Counsel.

Feb. 5—Request for hearing in Los Angeles, California filed by General Counsel.

Feb. 9—Notice issued placing proceeding on Los Angeles calendar. Service of answer and request made.

1946

Apr. 16—Hearing set June 10, 1946, Los Angeles, Calif.

1946

- June 12—Hearing had before Judge Black on merits. Appearance of Preston D. Oren, as counsel filed at hearing. Petitioner's brief due 8/1/46. Respondent's brief due 9/1/46. Petitioner's reply due 10/1/46.
- July 1—Transcript of hearing 6/12/46 filed.
- July 29—Brief filed by taxpayer. Copy served.
- Sept. 5—Motion for extension to Oct. 1, 1946, to file respondent's brief filed by General Counsel. 9/6/46. Granted.
- Sept. 27—Reply brief filed by General Counsel. Served 9/30/46.
- Oct. 15—Reply brief filed by taxpayer. Copy served.

1947

- May 29—Memorandum findings of fact and opinion rendered, Judge Black. Decision will be entered under Rule 50. 6/3/47 copy served.
- June 20—Motion to vacate and set aside the Memorandum findings of fact and opinion filed by taxpayer.
- July 9—Respondent's computation for entry of decision filed.
- July 14—Hearing set August 6, 1947, Wash., D. C., on Rule 50.
- July 14—Order denying motion to vacate and set aside memorandum findings of fact and opinion entered.



1947

July 29—Consent to respondent's computation filed.

July 30—Decision entered, Judge Black, Div. 15.

Oct. 27—Petition for review by U. S. Circuit Court of Appeals, Second Circuit, with assignments of error filed by taxpayer.

Nov. 3—Proof of service filed.

Nov. 10—Designation of record filed by taxpayer.

Nov. 24—Proof of service of designation of record filed. [1\*]

The Tax Court of the United States

Docket No. 6695

KENNEDY NAMEPLATE COMPANY, a Corporation,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

### PETITION

The above-named petitioner hereby petitions for a redetermination of the deficiency set forth by the Commissioner of Internal Revenue in his notice of deficiency (LA:IT:90D:PAK) dated September

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\* Page numbering appearing at top of page of original certified Transcript.

21, 1944, and as a basis of his proceeding alleges as follows:

1. The petitioner is a corporation incorporated under the laws of the State of California with principal office at 4509 Pacific Boulevard, Los Angeles, 11, California. The returns for the periods here involved were filed with the Collector for the 6th District of California.

2. The notice of deficiency (copy of which is attached and marked Exhibit "A") was mailed to the petitioner on September 21, 1944.

3. The taxes in controversy are income, excess profits, declared value excess profits and Section 102 taxes for the fiscal years ended June 30, 1941, and June 30, 1942, and in the amount of \$30,098.59.

4. The determination of tax set forth in the said notice of deficiency is based upon the following errors:

(A) The commissioner proposes to disallow the compensation paid to J. W. Hayek and W. J. Kennedy in the amount of \$5,936.58 each for the fiscal year ended June 30, 1941, and \$5,858.18 each for the fiscal year ended June 30, 1942.

(B) The commissioner contends that for each of the taxable years ended June 30, 1941, and June 30, 1942, the petitioner was availed of for the purpose of preventing the imposition of surtax upon its shareholders through the medium of permitting its earnings to accumulate beyond the reasonable needs of its business

and has accordingly imposed a surtax under the provisions of Section 102 of the Internal Revenue Code in the amounts of \$6,544.38 and \$9,115.11 for each of such years respectively.

5. The facts upon which the petitioner relies as the basis of this proceeding are as follows:

### Compensation of Officers

The Commissioner has not alleged that the services were not rendered and this petitioner is therefore submitting no facts on that point. [2]

Mr. J. W. Hayek is the president of the corporation and all of his time is devoted to the supervision of the petitioner's production and technical activities. Mr. W. J. Kennedy is the Secretary-Treasurer of the corporation and is in complete charge of the administrative, executive, sales and engineering activities of the petitioner. These two men are solely responsible for all of the activities of the corporation since its inception 23 years ago and have devoted all of their time to its business.

Mr. Hayek has spent the past 35 years in the technical aspect of the production of nameplates and allied products, is a recognized authority in this field and was one of the pioneer nameplate manufacturers in the United States. His technical skills comprise etching, chemical and electro plating, finishing of metals, sheet metal working, tool and die making, photographic techniques, decalcomania, plastics and their derivatives, properties and uses of acids, lithography, production and manu-

facturing techniques. He has been a leader in these fields from the beginning of the industry.

Mr. Kennedy has been a sales and administrative executive for more than 30 years and has held executive positions with such firms as Stewart Manufacturing Company of Chicago, International Products Company of New York, Cia International de Productos and Cia Central de Productos of Argentine and Paraguay, Marshall Field & Company of Chicago and (more than 25 years ago) was assistant to the Vice-President of Sulzberger & Sons (later Wilson & Company, packers). His educational background includes seven years post graduate work in advertising and sales engineering at the University of Southern California, two years as director of University College and the recent completion of a course in plastic chemistry conducted by the California Institute of Technology and is a recognized plastic engineer.

Mr. Kennedy purchased the Hayek Nameplate Company in Minneapolis in 1921 and immediately moved it to California and incorporated it in 1923 as the Kennedy Nameplate Company, the petitioner herein. Mr. Hayek came with the company and these two men have operated the company jointly since that time.

In the latter part of 1943 the National Engraving Company of Racine, Wisconsin, made an offer to purchase a 51% interest in the business of the petitioner and to retain Mr. Hayek and Mr. Kennedy to continue to run said business at the rate of compensation being then paid them by the peti-

tioner which was \$17,418.24 per annum each. This offer was rejected by them. They were not willing to work for anyone else for what they considered to be the modest compensation paid to them by the petitioner. When Mr. Kennedy was 37 years of age (25 years ago) he refused a business opportunity offered him in South America that would have guaranteed him earnings of \$25,000 per year.

With reference to A.R.R. 53, 2CB110 the following matters are pertinent. The annual compensation of each of the officers has never been in excess of \$18,000 and there has been no allocation of any intent to reduce the taxes of the corporation thereby. It has been the established policy of the petitioner for the past 13 years to pay bonuses to all of its permanent personnel. The remaining net profits of the petitioner for the subject years were approximately \$47,000 and \$92,000 respectively, these amounts being returns of  $48\frac{1}{2}\%$  and  $66\%$  of its invested capital respectively and it paid substantial income and excess profits taxes for the subject years of approximately \$67,000. The petitioner contends that the compensation paid to its officers does not reduce the net earnings subject to tax below that of competing concerns that secured the services of officers and employees by open bargaining. Under the management of these two men, the net sales of the petitioner increased from \$98,354 to \$256,451 and the number of employees [3] increased from 39 to 73 during the five-year period ended June 30, 1941. Subsequent substantial increases in produc-

tion have been brought about by the war-production program.

The petitioner alleges that the salaries paid to its executive officers set forth in the following schedule were not excessive and were not in excess of those that said officers could have reasonably expected to have obtained elsewhere and that the petitioner received full value for such compensation and that the full amounts of said compensation were reasonable and necessary to the conduct of the petitioner's business:

Name	1941	1942
Joseph W. Hayek.....	\$17,936.58	\$17,858.18
William J. Kennedy.....	\$17,936.58	\$17,858.18

#### Undistributed Net Income June 30, 1941

The net income for the taxable year ended that day was \$46,942.07, the federal taxes on income paid thereon were \$16,709.61, leaving undistributed income of \$30,232.46. This remaining income was not distributed for the reason that at that time the petitioner had under way a program of expansion that had been in process for several years and was essential to its continued existence. The plan actually in process on that date entailed a minimum expenditure of \$217,500 and a maximum of \$252,500. This was to be financed from its \$50,000 working capital, the sale of its existing plant for about \$60,000, by funds provided by shareholders of \$50,000 and the balance was to be taken care of by a trust deed on the new plant. When the United



States entered the war subsequent to this date necessary curtailment of materials required that this plan be held in abeyance and it is still the intention of the petitioner to consummate this plan as soon as construction materials and manufacturing equipment are available. This is the only way the petitioner can successfully continue in the nameplate business.

Following are some specific instances proving why petitioner needed all available funds for expansion necessary to its continued existence:

(A) In December 1940 the petitioner purchased an industrial site with trackage at 5511 Boyle Avenue, Los Angeles. It designed for erection thereon an efficient manufacturing facility as its existing plant had grown to the point where it was inefficiently operated and did not have space for needed equipment and processes. This plant was to cost approximately \$100,000.

(B) The petitioner's principal lithographing press was purchased second-hand in 1931 and was worn out and obsolete. In the latter part of 1940 and the early part of 1941 it was negotiating for the purchase of a new press to be installed at a cost of between \$50,000 and \$75,000. During such negotiations it communicated with R. J. Hoe Company, manufacturers, and Fuchs and Lang. The petitioner's president, Mr. Hayek, went east on this matter in 1941 and spent 13 weeks visiting other nameplate manufacturers and press manufacturers for the purpose of determining what type of press was most suited for the petitioner's needs. This

press was to be installed in the new plant as the existing plant was not large enough to accommodate it.

(C) On June 30, 1941, the petitioner was engaged in designing a complete infra-red conveyor system and continuous finishing equipment that would have materially reduced its manufacturing costs. This was also to be installed in its new plant and would entail an expenditure of between \$15,000 and \$25,000.

(D) At this time the petitioner was negotiating with the Aluminum Corporation of America for their anodyzing and alumilizing process that would have required considerably more floor space than was available in the petitioner's existing plant. This would have entailed an expenditure of \$5,000 for the necessary equipment and \$5,000 fee for a manufacturing license.

(E) The petitioner's cost of moving to its new plant was estimated at \$7,500 and it was expecting to spend an additional \$35,000 for heavy equipment necessary to the more economical and efficient manufacture of its products.

#### Undistributed Net Income June 30, 1942

The net income for the taxable year ended that day was \$91,747.72, the federal taxes on income paid thereon were \$49,985.96, leaving undistributed income of \$41,761.76. This remaining income was not distributed for two reasons, (1) the petitioner required part of this working capital for the hereinbefore described expansion of manufacturing facilities and, (2) the petitioner required the remainder

of its working capital for the extensive reconversion to peacetime production of its facilities that had been converted to war production in the interim. The following examples will illustrate this need:

(A) On that date all of the petitioner's facilities were engaged in production for the war effort, many of its existing facilities had been rendered useless for peacetime production and considerable capital would be needed to restore them.

(B) The petitioner was required to provide substantial reserves, not recognized by income tax purposes for inventory losses. As an example, aluminum was then 26c a pound and is expected to approximate 10c per pound after the war.

(C) The petitioner was required to maintain funds to cover inevitable losses on contract terminations as the type of its manufacturing activities are not such that all losses could be recovered under termination procedures.

(B) The petitioner believes that it will be necessary to maintain an uneconomical number of employees during the reconversion period in order to hold its organization intact.

(E) Upon reconversion, the petitioner will be required to spend approximately \$25,000 to restore its plating equipment, which had been abandoned during war production, and which will again be needed for peacetime production.

(F) The plastics engraving equipment, costing \$18,000 will be obsolete upon the cessation of war production, a loss not recognized during this period.

(G) Good business practice requires that the

petitioner maintain sufficient funds to act as a cushion against expected operating losses during the reconversion period and in the immediate post-war period.

(H) Funds will also be required to build a new distributing organization and to find altogether new outlets for selling its products during the post-war period.

(I) War-time technological advances have so reduced the costs of making nameplates that there will not be sufficient dollar volume in the post-war period to insure the petitioner's continued existence in that field alone, and it will therefore be necessary for the petitioner to enter other fields rather than to try to exist on nameplate manufacturing alone.

(J) The petitioner has been making considerable research into the use of [5] plastics and it is expected that they will replace some materials after the war. This will require new machinery and equipment to handle new metals, plastics and combinations of the two.

In summary, the petitioner alleges that for the year ended June 30, 1942, it had abandoned its peacetime activities and converted its entire facilities to war production and it is therefore entitled to accumulate reserves from such business to pay for not only the costs and losses of getting out of war production but the development of such new products as the developments of war production have shown will be necessary to insure its continued existence after the war. The petitioner also alleges

that it had to chop up its manufacturing plant and tear out certain of its built-in equipment to meet immediate needs of the aircraft industry, all of which must be restored. It will be impossible for it to compete in the post-war period at its present location unless it spends as much money to restore its plant to its original condition as the new plant and equipment contemplated in its original expansion program as at June 30, 1941, would cost.

The petitioner alleges that it, as a manufacturing corporation, was not availed of for the purpose of preventing the imposition of taxes upon its shareholders through the medium of permitting its earnings to accumulate beyond its reasonable needs.

With respect to the year ended June 30, 1941, the laws and regulations necessary to the successful prosecution of the war made it impossible for the petitioner to consummate its definite expansion program actually under way on that date and it should not be prohibited from accumulating funds for such purpose to be used when such controls are released.

With respect to the year ended June 30, 1942, with the exigencies of war production and the inevitable losses contingent upon the cessation thereof and the restoration of its plant, the petitioner alleges that it accumulated no more funds than were necessary to the successful prosecution of its business and reconversion of it.

The petitioner has not invested any of its funds. None of its funds were loaned to stockholders, in fact all during the first year under review it owed its stockholders \$16,997.54 which it paid during the



next year. The petitioner alleges that for both of these years it has not accumulated any funds beyond its reasonable current and foreseeable needs. [6]

Wherefore, the petitioner prays that this Court may hear the proceeding and find that no additional income and/or excess profits taxes and/or declared value excess profits taxes are due from the petitioner for the taxable years ended June 30, 1941, and June 30, 1942.

/s/ WILLIAM J. KENNEDY,  
Secretary-Treasurer for the  
Petitioner.

State of California,  
County of Los Angeles—ss.

William J. Kennedy, being duly sworn, says that he is the Secretary-Treasurer of the Kennedy Nameplate Company, a corporation, the above-named petitioner; that he is duly authorized to verify the foregoing petition; that he has read same and is familiar with the statements contained herein, and that the statements contained therein are true, except those stated to be upon information and belief and that those he believes to be true.

/s/ WILLIAM J. KENNEDY.

Subscribed and sworn to before me this 5th day of December, 1944.

[Seal] /s/ GERTRUDE OSTLING,  
Notary Public in and for the County of Los Angeles,  
State of California.

My Commission Expires March 5, 1947. [7]



## EXHIBIT "A"

[Letterhead Treasury Department]

Office of Internal Revenue Agent in Charge Los  
Angeles Division. LA-IT:90D:PAK.

Sept. 21, 1944

Kennedy Name Plate Co.  
4509 Pacific Boulevard  
Los Angeles 11, California

Gentlemen:

You are advised that the determination of your income tax liability for the taxable years ended June 30, 1941 and 1942, discloses a deficiency of \$19,800.59; that the determination of your declared value excess-profits tax liability for the taxable years ended June 30, 1941 and 1942, discloses a deficiency of \$3,113.83; and that the determination of your excess profits tax liability for the taxable years ended June 30, 1941 and 1942, discloses a deficiency of \$7,184.17, as shown in the statement attached.

In accordance with the provisions of existing internal revenue laws, notice is hereby given of the deficiency or deficiencies mentioned.

Within 90 days (not counting Sunday or a legal holiday in the District of Columbia as the 90th day) from the date of the mailing of this letter, you may file a petition with The Tax Court of the United States, at its principal address, Wash-

ington, D. C., for a redetermination of the deficiency or deficiencies.

Should you not desire to file a petition, you are requested to execute the enclosed form and forward it to the Internal Revenue Agent in Charge, Los Angeles, California, for the attention of LA:Conf. The signing and filing of this form will expedite the closing of your return(s) by permitting an early assessment of the deficiency or deficiencies, and will prevent the accumulation of interest, since the interest period terminates 30 days after filing the form, or on the date assessment is made, whichever is earlier.

Very truly yours,

JOSEPH D. NUNAN, JR.,

Commissioner.

By /s/ GEORGE D. MARTIN,

Internal Revenue Agent in  
Charge.

PAK:vme

Enclosures:

Statement

Form of Waiver

## STATEMENT

LA:IT:90D:PAK

Kennedy Name Plate Co.

4509 Pacific Boulevard

Los Angeles 11, California [8]

TAX LIABILITY FOR THE TAXABLE YEARS  
ENDED JUNE 30, 1941 AND JUNE 30, 1942

Income Tax

Year	Liability	Assessed	Deficiency
June 30, 1941.....	\$19,988.72	\$10,970.93	\$ 9,017.79
June 30, 1942.....	28,908.28	18,125.48	10,782.80
	<hr/>	<hr/>	<hr/>
Total .....	\$48,897.00	\$29,096.41	\$19,800.59

Declared Value Excess-Profits Tax

June 30, 1941.....	\$ 2,797.14	\$ 1,229.87	\$ 1,567.27
June 30, 1942.....	7,042.41	5,495.85	1,546.56
	<hr/>	<hr/>	<hr/>
Total .....	\$ 9,839.55	\$ 6,725.72	\$ 3,113.83

Excess Profits Tax

June 30, 1942.....	\$ 6,902.82	\$ 4,508.81	\$ 2,394.01
June 30, 1942.....	31,766.30	26,976.14	4,790.16
	<hr/>	<hr/>	<hr/>
Total .....	\$38,669.12	\$31,484.95	\$ 7,184.17

In making this determination of your tax liability, careful consideration has been given to the report of examination dated August 6, 1943 to your protest dated September 24, 1943 and to the statements made at the conferences held on October 19, 1943, March 21, 1944, July 6, 1944 and August 4, 1944.

It is held that the sums paid to your officers as alleged compensation, and deducted from gross income in computing your taxable net income, for the taxable years ended June 30, 1941 and 1942 exceed reasonable allowances for services rendered in such years within the purview of section 23 of the Internal Revenue Code to the following extent:

## Taxable Year Ended June 30, 1941

## Item of Alleged

	J. W. Hayek	W. J. Kennedy
Compensation		
Bonus .....	\$5,000.00	\$5,000.00
Proceeds from sale of scrap material retained by officer..	936.58	936.58
Amounts deemed excessive.....	\$5,936.58	\$5,936.58

## Taxable Year Ended June 30, 1942

	J. W. Hayek	W. J. Kennedy
Bonus .....	\$5,000.00	\$5,000.00
Proceeds from sale of scrap material retained by officer..	858.18	858.18
Amounts deemed excessive.....	\$5,858.18	\$5,858.18

It is held that for each of the taxable years ended June 30, 1941 and 1942, you were availed of for the purpose of preventing the imposition of surtax upon your shareholders through the medium of permitting your earnings and/or profits to accumulate beyond the reasonable needs of your business instead of being divided or distributed. Accordingly, surtax is imposed upon you for each of said taxable years ended June 30, 1941 and June 30, 1942 under the provisions of section 102 of the Internal Revenue Code.

A copy of this letter and statement has been mailed to your representative, Mr. C. Earle Memory, Commercial Exchange Building, Los Angeles 14, California, in accordance with the authority contained in the power of attorney executed by you.

## ADJUSTMENTS TO NET INCOME

## Taxable Year Ended June 30, 1941

Net Income as disclosed by return.....		\$46,942.07
Forwarded .....		46,942.07
Unallowable Deduction and Additional Income:		
(a) Compensation of Officers....	\$10,000.00	
(b) Proceeds from Sale of Scrap Omitted from Income Re- ported .....	1,873.16	11,873.16
Net Income Adjusted.....		\$58,815.23

## Explanation of Adjustments

These Adjustments Have Been Previously Explained  
Computation of Declared Value Excess-Profits Tax

Taxable Year Ended June 30, 1941

Net Income Adjusted.....	\$58,815.23
Less: 10% of \$300,999.00, Value of Capital Stock as Declared in the Capital Stock Tax Return for the Year Ended June 30, 1941....	30,099.90
Net Income Subject to Declared Value Excess-Profits Tax .....	\$28,715.33
Amount Taxable at 6% (5% of \$300,999.00) .....	15,049.95
Amount Taxable at 12%.....	\$13,665.38
Declared Value Excess-Profits Tax:	
6% of \$15,049.95.....	\$ 903.00
12% of \$13,665.38.....	1,639.85
Total .....	\$ 2,542.85
Defense Tax (10% of \$2,542.85).....	254.29
Correct Declared Value Excess-Profits Tax Liability .....	\$ 2,797.14
Declared Value Excess Profits Tax Assessed:	
Original, Account No. October 420010 .....	1,229.87
Deficiency of Declared Value Excess Profits Tax .....	\$ 1,567.27

Computation of Income Tax

Taxable Year Ended June 30, 1941

Tax Under Sections 13 and 15, Internal Revenue Code

Net Income ..... \$58,815.23

Less: Declared Value Excess-  
Profits Tax ..... 2,797.14

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Normal-Tax Net Income ..... \$56,018.99

Income Tax:

22.1% of \$56,018.09..... \$12,380.00

Defense Tax:

1.9% of \$56,018.09..... 1,064.34

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Total Income Tax Under Sec-  
tions 13 and 15 ..... \$13,444.34

Tax Under Sections 102 and 15, Internal Revenue Code

Net Income ..... \$58,815.23

Less: Declared Value Excess-  
Profits Tax ..... \$ 2,797.14

Income Tax Under Sec-  
tions 13 and 15..... 13,444.34

Excess Profits Tax (See  
Below) ..... 6,902.82

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23,144.30

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Section 102 Net Income..... \$35,670.93

Less: Basic Surtax Credit..... 11,873.16

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Undistributed Section 102 Net  
Income ..... \$23,797.77

Income Tax:

25% of \$23,797.77..... \$ 5,949.44

Defense Tax (10% of  
\$5,949.44) ..... 594.94

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Total Income Tax Under Sec-  
tions 102 and 15..... \$ 6,544.38



## Summary

Income Tax Under Sections 13 and 15	\$13,444.34
Income Tax Under Sections 102 and 15 .....	6,544.38
Correct Income Tax Liability.....	\$19,988.72
Income Tax Assessed:	
Original, Account No. October 420010 .....	10,970.93
Deficiency of Income Tax.....	\$ 9,017.79

Computation of Excess Profits Net Income  
Taxable Year Ended June 30, 1941

Excess Profits Net Income Disclosed by Return .....		\$34,741.27
Additions:		
(a) Compensation of Officers.....	\$10,000.00	
(b) Proceeds from Sale of Scrap Omitted from Income Reported .....	1,873.16	11,873.16
Total .....		\$46,614.43
Deductions:		
(c) Declared Value Excess-Profits Tax .....	\$ 1,567.27	
(d) Income Tax .....	2,473.41	4,040.68
Excess Profits Net Income Adjusted..		\$42,573.75

## Explanation of Adjustments

(a) and (b) These adjustments have been previously explained.

(c) The deduction claimed for declared value excess-profits tax is increased by the amount of the deficiency thereof as shown above in the computation of declared value excess profits tax.

(d) The deduction claimed for income tax is increased as shown above in the computation of income tax under Sections 13 and 15, I.R.C.

Adjustment to Average Base Period Net Income Where There  
Were Increased Earnings in the Last Half  
of the Base Period

Taxable Year Ended June 30, 1941

Average Base Period Net Income Where There Were Increased Earn- ings in the Last Half of the Base Period as Disclosed by Return.....	\$12,322.13
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Deduction:

(a) Elimination of Short-Term Capital Net Loss .....	500.00
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Average Base Period Net Income Where There Were Increased Earn- ings in the Last Half of the Base Period Adjusted .....	\$11,822.13
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Explanation of Adjustment

(a) This adjustment is due to the elimination of a short-term capital net loss of \$2,000.00 sustained upon the sale of securities during the base period year ended June 30, 1938.

Computation of Excess Profits Credit

Taxable Year Ended June 30, 1941

Average Base Period Net Income.....	\$11,822.13
95% of Average Base Period Net In- come .....	\$11,231.02
Excess Profits Credit.....	\$11,231.02

## Computation of Adjusted Excess Profits Net Income

Taxable Year Ended June 30, 1941

Excess Profits Net Income.....		\$42,573.75
Less: Exemption .....	\$ 5,000.00	
Excess Profits Credit.....	11,231.02	16,231.02

Adjusted Excess Profits Net Income..		\$26,342.73
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## Computation of Excess Profits Tax

Taxable Year Ended June 30, 1941

Adjusted Excess Profits Net Income..		\$26,342.73
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## Excess Profits Tax:

25% of \$20,000.00.....	\$ 5,000.00
30% of \$ 6,342.73.....	1,902.82

Correct Excess Profits Tax Liability..	\$ 6,902.82
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## Excess Profits Tax Assessed:

Original, Account No. October 400010 .....	4,508.81
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Deficiency of Excess Profits Tax.....	\$ 2,394.01
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## Adjustments To Net Income

Taxable Year Ended June 30, 1942

Net Income as Disclosed by Return....	\$91,747.72
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## Unallowable Deduction and Additional Income:

Compensation of Officers.....	\$10,000.00
Proceeds from Sale of Scrap Omitted from Income Re- ported .....	1,716.36
	11,716.36

Net Income Adjusted .....	\$103,464.08
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Explanation of Adjustments

These adjustments have been previously explained.

Computation of Declared Value Excess-Profits Tax

Taxable Year Ended June 30, 1942

Net Income Adjusted .....	\$103,464.08
Less: 10% of \$400,900.00 value of Capital Stock as Declared in the Capital Stock Tax Return for the Year Ended June 30, 1942....	40,090.00
Net Income Subject to Declared Value Excess-Profits Tax.....	\$ 63,374.08
Amount Taxable at 6.6% (5% of \$400,900.00) .....	20,045.00
Amount Taxable at 13.2%.....	\$ 43,329.08
Declared Value Excess-Profits Tax:	
6.6% of \$29,045.00.....	\$ 1,322.97
13.2% of \$43,329.08.....	5,719.44
Correct Declared Value Excess-Prof- its Tax Liability.....	\$ 7,042.41
Declared Value Excess-Profits Tax Assessed:	
Original, Account No. October 420015 .....	5,495.85
Deficiency of Declared Value Excess- Profits Tax.....	\$ 1,546.56

## Computation of Excess Profits Net Income

Taxable Year Ended June 30, 1942

Excess Profits Net Income as Disclosed by Return .....		\$ 86,184.85
Additions:		
(a) Compensation of Officers.....	\$10,000.00	
(b) Proceeds from Sale of Scrap Omitted from Income Reported .....	1,716.36	11,716.36
		<hr/>
Total .....		\$ 97,901.21
Deduction:		
(c) Declared Value Excess-Profits Tax.....		1,546.56
		<hr/>
Excess Profits Net Income Adjusted..		\$ 96,334.65

## Explanation of Adjustments

(a) and (b): These adjustments have been previously explained.

(c) The deduction claimed for declared value excess-profits tax is increased by the amount of the deficiency thereof as shown above in the computation of declared value excess-profits tax.

## Adjustment to Average Base Period Net Income

Where There Were Increased Earnings in the Last Half of the Base Period

Taxable Year Ended June 30, 1942

Average Base Period Net Income Where There Were Increased Earnings in the Last Half of the Base Period as Disclosed by Return	\$ 14,168.53
Deduction:	
(a) Elimination of Short-Term Capital Net Loss.....	500.00
	<hr/>
Average Base Period Net Income Where There Were Increased Earnings in the Last Half of the Base Period Adjusted.....	\$ 13,668.53

Explanation of Adjustment

(a) This adjustment is due to the elimination of a short-term capital net loss of \$2,000.00 sustained upon the sale of securities during the base period year ended June 30, 1938.

Computation of Excess Profits Credit

Taxable Year Ended June 30, 1942

Average Base Period Net Income.....	\$ 13,668.53
95% of Average Base Period Net Income .....	\$ 12,985.10
Excess Profits Credit .....	\$ 12,985.10

Computation of Adjusted Excess Profits Net Income

Taxable Year Ended June 30, 1942

Excess Profits Net Income Adjusted..	\$ 96,354.65
Less: Exemption.....	\$ 5,000.00
Excess Profits Credit.....	12,985.10
Adjusted Excess Profits Net Income..	\$ 78,369.55

Computation of Excess Profits Tax

Taxable Year Ended June 30, 1942

Adjusted Excess Profits Net Income..	\$ 78,369.55
Excess Profits Tax:	
35% of \$20,000.00.....	\$ 7,000.00
40% of \$30,000.00.....	12,000.00
45% of \$28,369.55.....	12,766.30
Correct Excess Profits Tax Liability..	\$ 31,766.30
Excess Profits Tax Assessed:	
Original, Account No. October 400011 .....	26,976.14
Deficiency of Excess Profits Tax.....	\$ 4,790.16



## Computation of Income Tax

Taxable Year Ended June 30, 1942

Tax Under Sections 13 and 15, Internal Revenue Code:

Net Income .....		\$103,464.08
Less: Declared Value Excess		
Profits Tax.....	\$ 7,042.41	
Excess Profits Tax.....	31,766.30	38,808.71
		<hr/>
Surtax Net Income.....		\$ 64,655.37
Normal Tax Net Income.....		\$ 64,655.37
Income Tax:		
Normal Tax:		
24% of \$64,655.37.....		\$ 15,517.29
Surtax:		
6% of \$25,000.00.....	\$ 1,500.00	
7% of \$39,655.37.....	2,755.88	4,275.88
		<hr/>
Total Income Tax Under Sec-		
13 and 15 .....	19,793.17	

Tax Under Section 102, Internal Revenue Code:

Net Income.....		\$103,464.08
Less: Declared Value Excess-		
Profits Tax.....	\$ 7,042.41	
Income tax Under Sections		
13 and 15 .....	19,793.17	
Excess Profits Tax.....	31,766.30	58,601.88
		<hr/>
Section 102 Net Income.....		\$ 44,862.20
Less: Basic Surtax Credit.....		11,716.36
		<hr/>
Undistributed Section 102 Net		
Income .....		\$ 33,145.84
Income Tax:		
27½% of \$33,145.84.....	\$ 9,115.11	
Total Income Tax Under Sec-		
tion 102.....		\$ 9,115.11

Summary

Income Tax Under Section 13 and 15	\$ 19,793.17
Income Tax Under Section 102.....	9,115.11
Correct Income Tax Liability.....	\$ 18,908.28
Income Tax Assessed:	
Original, Account No. October	
420015 .....	18,125.48
Deficiency of Income Tax.....	\$ 10,782.80
Received and filed Dec. 11, 1944.	

[Title of Tax Court and Cause.]

ANSWER

The Commissioner of Internal Revenue, by his attorney, J. P. Wenchel, Chief Counsel, Bureau of Internal Revenue, for answer to the petition of the above-named taxpayer, admits and denies as follows:

1 and 2. Admits the allegations contained in paragraphs 1 and 2 of the petition.

3. Admits that the taxes in controversy are income, excess-profits, declared value excess-profits and Section 102 taxes for the fiscal years ended June 30, 1941, and June 30, 1942; denies the remaining allegations contained in paragraph 3 of the petition.

4. Denies the allegations of error contained in subparagraph (A) and (B) of paragraph 4 of the petition. [17]

5. Denies the allegations contained in paragraph 5 of the petition, and all subdivisions thereof.

6. Denies each and every allegation contained in the petition not hereinbefore specifically admitted or denied.

Wherefore, it is prayed that the determination of the Commissioner be approved.

/s/ J. P. WENCHEL                      ECC  
Chief Counsel, Bureau of Internal Revenue.

Of Counsel:

B. H. NEBLETT,  
Division Counsel.

E. C. CROUTER,

E. A. TONJES,

Special Attorneys, Bureau of Internal Revenue. [18]

## The Tax Court of the United States

Docket No. 6695

KENNEDY NAMEPLATE COMPANY, a Corporation,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

1. Petitioner, a corporation, was organized in 1923 by two individuals, each of whom except for one qualified share, acquired 50 per cent of petitioner's capital stock. These individuals were elected officers of petitioner and have continued as such to and through the taxable years ended June 30, 1941 and 1942. Each officer devoted all of his time to petitioner's business. In 1940 petitioner increased the salaries of each officer up to \$12,000 per annum which was a substantial increase over previous years. During each taxable year petitioner paid each officer \$12,000 as a regular salary, \$5,000 as a bonus and approximately \$900 as proceeds from the sale of scrap. Petitioner declared or paid no dividends, as such, since the fiscal year ended June 30, 1938. Held, petitioner is not entitled to deduct under section 23 (a)(1)(A), I.R.C., as reasonable com-

compensation for services rendered by its two officers any amount in excess of the regular salaries paid each year in the total amount of \$24,000 and proceeds from the scrap sales; held, further, the payments of the bonuses were in the nature of dividend distributions on stock and not deductible by petitioner as ordinary and necessary expenses under section 23 (a) (1) (A). [19]

2. Petitioner at the time of incorporation in 1923 took over a name plate business then being conducted by a partnership. During the taxable years its business included the production of many items in addition to name plates which were sold largely to the airplane industry. During the taxable years petitioner was badly in need of a new building, a new press and other equipment and adopted a policy of accumulating its earnings for that purpose. Held, that during the taxable years ended June 30, 1941 and 1942, petitioner was not availed of for the purpose of preventing the imposition of the surtax upon its shareholders through the medium of permitting its earnings or profits to accumulate instead of being distributed to its stockholders and it is not liable for the surtax imposed by section 102 of the Internal Revenue Code.

Preston D. Orem, Esq., and C. Earle Memory, C.P.A., for the petitioner.

E. A. Tonjes, Esq., for the respondent.

## MEMORANDUM FINDINGS OF FACT AND OPINION

The respondent determined deficiencies for the taxable years ended June 30, 1941, and June 30, 1942, as follows:

Year	Income Tax	Declared Value Excess Profits Tax	Excess Profits Tax
1941	\$ 9,017.79	\$1,567.27	\$2,394.01
1942	10,782.80	1,546.56	4,790.16

In a statement attached to the deficiency notice the respondent, among other things, advised petitioner as follows:

It is held that the sums paid to your officers as alleged compensation, and deducted from gross income in computing your taxable net income, for the taxable years ended June 30, 1941 and 1942, exceed reasonable allowances for services rendered in such years within the purview of section 23 of the Internal Revenue Code to the following extent: [20]

### Taxable Year Ended June 30, 1941

#### Item of Alleged

Compensation	J. W. Hayek	W. J. Kennedy
Bonus .....	\$5,000.00	\$5,000.00
Proceeds from sale of scrap material retained by officer..	936.58	936.58
Amounts deemed excessive.....	\$5,936.58	\$5,936.58

### Taxable Year Ended June 30, 1942

Bonus .....	\$5,000.00	\$5,000.00
Proceeds from sale of scrap material retained by officer..	858.18	858.18
Amounts deemed excessive.....	\$5,858.18	\$5,858.18



It is held that for each of the taxable years ended June 30, 1941 and 1942, you were availed of for the purpose of preventing the imposition of surtax upon your shareholders through the medium of permitting your earnings and/or profits to accumulate beyond the reasonable needs of your business instead of being divided or distributed. Accordingly, surtax is imposed upon you for each of said taxable years ended June 30, 1941, and June 30, 1942, under the provisions of section 102 of the Internal Revenue Code.

Petitioner by appropriate assignments of error contests all of the above-mentioned adjustments and holdings of the respondent.

In determining the average base period net income for each of the taxable years here involved the respondent eliminated in each year the amount of \$500 from the average base period net income as disclosed by petitioner's returns. Petitioner does not contest these eliminations.

### Findings of Fact

Petitioner is a corporation. It was incorporated under the laws of the State of California on August 19, 1923, and has its principal office and place of business in the City of Los Angeles. It filed its corporation income and excess profits tax returns for the fiscal years ended June 30, 1941, and June 30, 1942, with the collector for the sixth collection district at Los Angeles. [21]

Joseph W. Hayek has been in the name plate business since 1907. From 1907 to 1917 he either managed name plate companies or the name plate departments of various companies. In 1917 he started a name plate business in Minneapolis, Minnesota, under the name of Hayek Nameplate & Novelty Company. In 1921 he sold this business to William James Kennedy and Kennedy's uncle. Kennedy and his uncle moved the business to Los Angeles, California, and began to operate it as a partnership under the name of Kennedy Nameplate Company. Hayek originally became an employee of the partnership and had charge of the production end of the business. Soon thereafter Kennedy's uncle sold his 50 per cent interest in the partnership to Hayek and in 1923 Hayek and Kennedy organized the petitioner herein. The business of the partnership was transferred to petitioner in exchange for the latter's stock. From the time of organization to and through the taxable years here involved Hayek has been the president and a director of petitioner and Kennedy has been the secretary-treasurer and a director. Both men have devoted their entire time to petitioner's business and have engaged in no outside business activities.

At the time petitioner was organized it issued 1,251 shares of its stock to Hayek, 1,251 shares to Kennedy, and 1 share to a Mr. Frank who became a director along with Hayek and Kennedy. Petitioner had only three directors. Frank was later succeeded by D. R. Koelling who then became the third director. The stock had a par value of \$10

per share. During the taxable years here in question the stock that was issued to Hayek was owned by him as his separate property and the stock that was issued to Kennedy was either owned by him as his separate property or by him and his wife, Alice L. Kennedy, as community property. [22]

Kennedy was employed by various companies in New York City, Chicago, and in South America from 1912 to 1921 when he first engaged in the name plate business. He had had quite extensive experience as an executive and manager and in sales promotion both in the United States and in South America.

From the time petitioner was organized to and through the taxable years here involved Hayek and Kennedy divided the important managerial functions of petitioner's business between them. Hayek was in complete charge of production, supervising the work of men employed in several different trades including art, die making, engraving, photography, etching, plating, lithography, decalcomania manufacture and punch press operations. He also employed a portion of the technical personnel. He perfected many new processes and techniques including a new method for camera work, the elimination of certain etching and lithographic operations, die making improvements, new engraving methods, new chemical solutions and new uses for chemical solutions, new processes for plastics and fibre, fluorescent plates and many others. He and Kennedy together devised a new type of con-

vexor to operate under a bank of infra red light which has been quite successful. Kennedy was in complete charge of all departments and activities of petitioned except production, including sales, advertising, price figuring, employment of a portion of the technical personnel, collections, purchases, finances and also keeping in constant touch with new technological developments and processes.

During the taxable years ended June 30, 1941 and June 30, 1942, Hayek worked from 65 to 75 hours per week as compared with about 45 hours in 1939. Many times he worked on Sunday during the war and more than once he was required to work all night on important war jobs. Kennedy worked about 54 hours per week during the taxable years as compared with about 45 hours per week during 1939 and 1940. [23]

The business of petitioner during the years 1941 and 1942 included the production of many items in addition to name plates, including scales, dials, instruction and designation plates, luminous, fluorescent and phosphorescent plates and other articles of similar nature which were sold largely to the airplane industry. It was necessary to substitute plastics and fibres for metals in manufacturing many products because of the shortage of metals and the necessity for conserving strategic materials. The business of the company during these years also involved the use of radium and black light. Many problems arose due to the fumes caused by

the use of certain materials, allergies and radioactivity. Government inspection during the war was very rigid, requiring greater accuracy in production than in prior years.

The by-laws of petitioner empowered the board of directors to appoint and remove all officers of the company, prescribe their duties and fix their compensation.

The minutes of the regular meeting of the board of directors of petitioner held on April 30, 1940 provide in part as follows:

On motion of Jos. W. Hayek, seconded by D. R. Koelling, it was voted to increase the salary of W. J. Kennedy, to \$12,000 per year, retroactive to July 1st, 1939.

W. J. Kennedy then relinquished the chair to Jos. W. Hayek, and moved, seconded by D. R. Koelling, that the salary of Jos. W. Hayek be increased to \$12,000 per year, retroactive to July 1st, 1939.

The minutes of the regular meeting of the board of directors of petitioner held on June 11, 1941 provide in part as follows:

On motion of W. J. Kennedy, seconded by D. R. Koelling, a bonus of \$5,000 was voted to Jos. W. Hayek and W. J. Kennedy.

Petitioner's net sales, officers' compensation (Hayek and Kennedy only), net income before Federal taxes on income, Federal taxes on income,

and net profits for the fiscal years ended June 30, 1936 to June 30, 1942, inclusive, were as follows:

Year Ended June 30	Net Sales	Officers' Compensation	Net Income before Federal Taxes	Federal Taxes on Income	Net Profit
1936	\$ 82,153.49	\$ 6,542.00	\$16,430.61	\$ 2,925.79	\$13,504.82
1937	98,354.42	15,000.00	13,870.53	2,961.67	10,908.86
1938	109,464.23	15,322.40	6,387.47	1,526.50	4,860.97
1939	109,966.49	15,183.30	10,164.23	1,347.99	8,816.24
1940	151,446.43	24,194.80	15,862.53	2,145.75	13,716.78
1941	256,451.30	34,000.00	46,942.07	16,709.61	30,232.46
1942	363,912.88	34,000.00	91,747.72	50,597.47	41,150.25

Beginning in 1931 petitioner began paying bonuses to certain of its employees. During the taxable years such bonuses approximately \$12,000 to \$14,000 per year. During the fiscal years ended June 30, 1937, to June 30, 1942, inclusive, petitioner's employees numbered 39, 36, 37, 53, 73 and 90, respectively.

Petitioner accumulated certain scrap from time to time which is the metal that was left over from the various jobs. It is usually referred to as "overs on jobs" and is sold as scrap. The proceeds from the sales of scrap by petitioner amounted to \$1,873.16 for the fiscal year ended June 30, 1941, and \$1,716.36 for the fiscal year ended June 30, 1942. One-half of these amounts was paid over to Hayek and one-half to Kennedy, who, together with their respective wives, reported the amounts in their individual income tax returns as income from the sale of scrap. Petitioner did not return any of the proceeds from the sales of scrap as income and neither



did it deduct any amount as compensation, or otherwise, on account of the said proceeds that were paid over to Hayek and Kennedy. The proceeds from the sale of scrap was a part of petitioner's gross income and should have been returned by petitioner as such. It is the practice in the name plate industry to permit officers to sell scrap and to regain the proceeds from such sales as a bonus or additional compensation. Everywhere that Hayek ever worked he always got the scrap or part of [25] the scrap. In 1916, when he was working for a Minneapolis concern, his salary was \$4,420 plus all the scrap except the scrap from sterling silver. In 1930 he was offered a position at an annual salary of \$12,000 plus 20 per cent of the scrap.

During the years 1941 and 1942 there were only two or three firms besides petitioner in the name plate business in the Los Angeles area. The principal competitor of petitioner in the Los Angeles area was Miller Dial & Nameplate Company. During the years 1941 and 1942 Miller Dial & Nameplate Company was a partnership composed of two brothers, Charles W. Miller and John Dawson Miller. The duties of Charles in the partnership were very similar to those of Kennedy in petitioner and the duties of John in the partnership were very similar to those of Hayek in petitioner. The sales of Miller Dial & Nameplate Company for the calendar year 1941 were approximately \$156,000 and for the calendar year 1942 they were approximately

\$338,000. No salaries were paid to the partners in Miller Dial & Nameplate Company for the year 1941; the partners simply made withdrawals as needed. For the year 1942 the salary of Charles was \$24,000 and that of John was \$18,000.

During February or March of the year 1943 the Northern Engraving Company of Racine, Wisconsin, offered to purchase a 51 per cent control of the business of petitioner and to retain the services of Hayek and Kennedy for a period of two years. This offer was rejected.

Petitioner has declared or paid no dividends, as such, since the fiscal year ended June 30, 1938. [26]

A reasonable allowance for salaries or other compensation for personal services actually rendered to petitioner by each of its officers, Hayek and Kennedy, during each of the taxable years ended June 30, 1941, and June 30, 1942, was the basic salary paid to each officer in each year in the respective amount of \$12,000 plus the proceeds from the sale of scrap in each of the taxable years paid to those two respective officers. The amounts of \$5,000 paid to each officer in the taxable years ended June 30, 1941, and June 30, 1942, were in the nature of dividend distributions on stock.

Petitioner's surplus, increase (or decrease) in surplus, working capital and increase (or decrease) in working capital for the years ended June 30,

1936, to March 31, 1946, inclusive, were as follows  
(Note: Decreases are shown in parentheses):

Year Ended June 30	Surplus	Increase (or decrease) in Surplus	Working Capital	Increase (or decrease) in Working Capital
1936	\$ 26,141.88		\$ 35,201.14	
1937	32,775.62	\$ 6,633.74	41,234.91	\$ 6,033.77
1938	30,021.08	(2,754.54)	26,405.09	(14,829.82)
1939	39,333.04	9,311.96	32,425.69	6,020.60
1940	42,183.61	2,850.57	36,864.01	4,438.32
1941	72,423.25	30,239.64	50,740.22	10,876.21
1942	114,185.01	41,761.76	75,153.36	24,413.14
1943	135,056.32	20,871.31	69,610.34	(1,543.00)
1944	151,981.40	16,925.08	89,518.16	18,907.82
1945	162,000.47	10,019.07	108,910.14	16,391.98
1946 (9 months)	147,073.45	(14,972.02)	92,818.75	(13,091.39)
Total net increases..		\$120,931.57		\$57,617.60

At all times from June 30, 1936, to March 31, 1946, petitioner's capital stock outstanding was 2,503 shares of the par value of \$25,030. During the fiscal years ended June 30, 1936, 1937 and 1938, petitioner declared and paid dividends in the amounts of \$1,000.80, \$4,311 and \$5,006, respectively.

Petitioner's comparative balance sheets for the fiscal years ended June 30, 1936 to June 30, 1940, inclusive, are as follows:

ASSETS	1936	1937	1938	1939	1940
Cash and Bank Accounts.....	\$ 20,595.16	\$ 15,311.14	\$ 14,561.85	\$ 15,189.21	\$ 18,305.04
Corporation Stock.....		10,209.20			
Accounts Receivable.....	13,469.11	13,561.78	11,626.25	11,878.28	17,015.22
Inventories .....	3,656.07	4,937.87	6,674.30	10,511.31	9,025.46
Plant and Equipment.....	47,053.77	51,491.79	56,093.81	56,832.32	60,854.29
Prepaid Expenses.....	308.60	186.20	817.63	543.87	338.91
Deferred Charges and Goodwill.....	10,866.21	10,866.21	10,866.21	10,866.21	—
Totals .....	\$ 95,948.92	\$106,564.19	\$100,640.05	\$105,821.20	\$105,538.83
LIABILITIES AND CAPITAL					
Current Liabilities.....	\$ 2,519.20	\$ 2,785.08	\$ 4,930.81	\$ 3,805.12	\$ 5,335.96
Federal Taxes on Income.....	—	—	1,526.50	1,347.99	2,145.75
Due to Employees.....	23,652.46	31,240.00	22,141.30	17,017.54	17,017.54
Mortgage Payable.....	6,000.00	—	—	—	—
Depreciation Reserves.....	12,605.38	14,733.49	16,990.36	19,257.51	13,825.97
Capital Stock.....	25,030.00	25,030.00	25,030.00	25,030.00	25,030.00
Surplus .....	26,141.88	32,775.62	30,021.08	39,333.04	42,183.61
Totals .....	\$ 95,948.92	\$106,564.19	\$100,640.05	\$105,821.20	\$105,538.83

Petitioner's comparative balance sheets for the fiscal years ended June 30, 1941 to June 30, 1945, inclusive, are as follows:

ASSETS	1941	1942	1943	1944	1945
Cash & Bank Accounts.....	\$ 33,056.18	\$ 82,825.15	\$ 94,419.12	\$ 59,452.71	\$ 79,396.41
Treasury Notes.....	—	—	—	25,225.42	25,182.28
Accounts Receivable.....	28,942.09	33,756.89	31,055.08	21,737.12	17,255.83
Inventories.....	17,513.90	21,434.86	14,429.96	12,912.47	9,487.66
Plant & Equipment.....	74,593.98	79,512.41	103,278.34	106,777.58	106,174.01
Prepaid Expenses.....	451.14	323.82	319.09	286.40	350.66
Boyle Avenue Property.....	8,126.06	8,008.55	7,891.04	7,773.53	7,656.02
Post War Tax Refunds.....	—	—	3,887.20	4,695.01	4,420.28
Totals.....	\$162,683.35	\$225,861.68	\$255,279.83	\$238,860.24	\$249,923.15
LIABILITIES & CAPITAL					
Current Liabilities.....	\$ 12,062.34	\$ 12,877.58	\$ 17,681.15	\$ 16,175.02	\$ 21,843.34
Federal Taxes on Income.....	16,709.61	49,985.96	41,112.67	13,634.54	3,568.70
Notes Payable.....	3,000.00	3,000.00	10,500.00	—	—
Due to Employees.....	16,997.54	—	—	—	—
Depreciation Reserves.....	16,460.61	20,783.13	25,899.69	32,039.28	37,480.64
Capital Stock.....	25,030.00	25,030.00	25,030.00	25,030.00	25,030.00
Surplus.....	72,423.25	114,185.01	135,056.32	151,981.40	162,000.47
Totals.....	\$162,683.35	\$225,861.68	\$225,279.83	\$238,860.24	\$249,923.15

Petitioner's balance sheet as of March 31, 1946, is as follows:

## ASSETS

Cash & Bank Accounts.....	\$ 49,229.52
Treasury Notes .....	25,020.00
Corporation Stock .....	9,756.50
Accounts Receivable .....	16,681.81
Inventories .....	20,549.81
Plant & Equipment.....	107,177.14
Prepaid Expenses .....	1,402.76
Boyle Avenue Property.....	7,567.91
Post War Tax Refunds.....	4,420.28
Total.....	<u>\$232,905.24</u>

## LIABILITIES &amp; CAPITAL

Current Liabilities .....	\$ 19,518.40
Depreciation Reserve .....	41,283.39
Capital Stock .....	25,030.00
Surplus .....	147,073.45
Total.....	<u>\$232,905.24</u>

An analysis of petitioner's surplus account from July 1, 1935, to and including March 31, 1946, is as follows (Note: All years are fiscal years ending June 30th, except 1946, which is a 9 months period ending March 31, 1946):



Year	Balance Beginning of Year	Add Profits For Year	Add (Or Deduct) Net Income Tax Adjustments	Add (Or Deduct) Other Adjustments	Deduct Dividends Paid	Balance End Of Year
1936.....	\$ 10,920.21	\$ 13,504.82	\$ 2,717.65	—	\$1,000.80	\$ 26,141.88
1937.....	26,141.88	10,908.86	35.88	—	4,311.00	32,775.62
1938.....	32,775.62	4,860.97	(\$2,961.67)	\$ 352.16	5,006.00	30,021.08
1939.....	30,021.08	8,816.24	—	495.72	—	39,333.04
1940.....	39,333.04	13,716.78	—	(10,866.21)	—	42,183.61
1941.....	42,183.61	30,232.46	—	7.18	—	72,423.25
1942.....	72,423.25	41,150.25	611.51	—	—	114,185.01
1943.....	114,185.01	21,482.82	(611.51)	—	—	135,056.32
1944.....	135,056.32	16,925.08	—	—	—	151,981.40
1945.....	151,981.40	10,019.07	—	—	—	162,000.47
1946.....	162,000.47	(14,927.02)	—	—	—	147,073.45

An analysis of petitioner's plant and equipment account from July 1, 1936, to and including March 31, 1946, indicates that petitioner made the following additions thereto during each year and also wrote off certain assets in amounts as follows:

Year Ended June 30	Additions	Amounts Written Off
1937 .....	\$ 4,438.02	None
1938 .....	4,602.02	None
1939 .....	738.51	None
1940 .....	11,573.14	\$ 7,551.26
1941 .....	14,199.03	459.25
1942 .....	5,239.37	320.94
1943 .....	24,199.68	433.75
1944 .....	3,544.49	45.25
1945 .....	680.31	1,283.88
1946 (9 months).....	1,003.13	None
Totals.....	<u>\$70,217.70</u>	<u>\$10,094.33</u>

Before and during the years 1941 and 1942, the officers of petitioner planned a considerable expansion program for the increase of its plant facilities. These plans included a new modern building with a mezzanine floor designed to fit the manufacturing needs of petitioner which would cost between \$150,000 and \$250,000. It was estimated by petitioner's officers that this new building would decrease petitioner's costs of manufacture from three to five per cent and provide badly needed space for the restoration of discontinued facilities and the in-

stallation of new facilities. Erection of a new building is still planned by petitioner and is essential.

During December of 1940, petitioner purchased a site on Boyle Avenue in an industrial section one and one-half miles from its existing plant for \$8,126.06. Prior to the purchase, petitioner had investigated the Boyle Avenue property and other properties for the purpose of finding a satisfactory location for a new plant. The Boyle Avenue property was purchased for that purpose. Because building contractors were busy on war contracts in 1941, it proved not practicable to put up a building on Boyle Avenue at that time. Later, two large plants of other companies were erected near the Boyle Avenue site, who employed about 6,500 to 7,000 employees. As this situation resulted in a parking problem and traffic congestion around the Boyle Avenue property it was rendered less suitable for the purpose of the erection of a plant for petitioner, although the property had generally become more valuable.

Petitioner leased the Boyle Avenue property to a tenant which lease has now expired and the same tenant is occupying the property on a month to month basis. Petitioner is now endeavoring to exchange the Boyle Avenue site for a property more suitable for the fulfillment of its building program.

When petitioner moved to its present plant in 1928 the cost of moving its machinery to that plant was from \$3,000 to \$4,000. Petitioner now has from eight to ten times as much equipment which will have to be moved to its new building.

Petitioner has a large lithographic press which it purchased about 1926. The press is a Voss and Lang press which was made in 1874. This press is inadequate, dilapidated and slow. Petitioner is badly in need of a new lithographic press. During 1941 or 1942, Hayek made a trip East and investigated lithographic presses at the plants where they were being manufactured. He recommended the purchase of an R. J. Hoe press at a cost of \$35,000 to \$55,000 f.o.b. Newark, New Jersey, plus \$3,000 to \$5,000 for shipping and installation costs. Petitioner still badly needs the Hoe press but the present building is not large enough and there is not adequate space for the Hoe press. During the war, Hoe & Company were only taking Government orders and could not make delivery of a press to petitioner. When petitioner is able to purchase the Hoe press and install it for use, it can take large tin sign orders which cannot be accepted at present because of the inadequate press in use.

Petitioner planned in 1941 and 1942 to take out all of its present ovens and replace them with infra red conveyors such as the one invented by petitioner's officers and already in use in 1941. The cost was estimated to be \$12,000 to \$15,000. It is planned to make these installations as soon as there is room for them. Such installations will materially reduce costs and improve the appearance of the jobs. [32]

Petitioner had to tear out its plating department in 1941 because of Government restrictions and because the space occupied by the plating de-

partment was required for degreasing of material on Government contracts. Since 1942 petitioner has assembled a nickel plating plant but has to subcontract out all other plating. This causes delays in deliveries and reduces profits. Additional plating facilities are required at present and would cost \$15,000 to \$20,000.

During 1941 and 1942, petitioner planned to obtain a license for color anodizing from the Aluminum Corporation of America at a cost of \$5,000 for the license plus \$10,000 to \$12,000 for the required color anodizing plant consisting of tanks, dynamos, lines, anodes, etc. Due to war requirements, petitioner had no available space for the proposed installation but still contemplates securing the license and putting in the plant as soon as the space is available. This type of facilities is required to keep petitioner's service to its customers complete and continuous.

Petitioner also planned during 1941 and 1942 to go further into the field of plastics manufacture, put in an adequate hydraulic press, a good plastic press and other miscellaneous equipment which would cost around \$25,000 at first and more later.

During 1941 and 1942, petitioner anticipated an eventual cessation of war hostilities and that a reconversion period would follow. Petitioner believed it would lose all of its war customers, and have to find new customers engaged in civilian work, that there would be a loss from its operations during a period from one to two years after the

cessation of hostilities, that existing contracts would be cancelled and cost percentages would be greater during the reconversion period. During the nine months ended March 31, 1946 (the greater portion of that period being after war operations [33] had ceased) petitioner sustained a net loss from operations of \$14,927.02 and a decrease in working capital of \$13,091.39. Kennedy believes that the reconversion period will last at least one more year after March 31, 1946, during which period it is probable a loss will be sustained.

Petitioner's original plant building erected in 1928 and the first addition thereto added in 1929 or 1930 were financed partially by first and second mortgages. When the second mortgage matured in 1931, the mortgagee refused to renew it. Petitioner was unable to refinance the mortgage in Los Angeles and had to refinance it in Chicago in part and by a loan from Hayek in part. There was danger of a foreclosure which would have put petitioner out of business in 1931.

After 1931 petitioner adopted a policy of financing all capital additions, such as building sites, additions to buildings, machinery and equipment from its earnings entirely rather than in part through loans. This policy was continued through 1941 and 1942 and up to the present time, petitioner paying cash for all of its capital additions to plant, machinery and equipment, and also planning to finance future contemplated new plant and machinery and equipment additions from its working capital.



During the taxable years here involved petitioner was not a mere holding or investment company. Petitioner did not during the taxable years here in question permit its earnings or profits to accumulate beyond the reasonable needs of its business. During the taxable years here involved petitioner was not availed of for the purpose of preventing the imposition of the surtax upon its shareholders or the shareholders of any other corporation through the medium of permitting its earnings or profits to accumulate instead of being divided or distributed. [34]

### Opinion

Black, Judge: There are three issues involved in this proceeding. The first is whether the respondent erred in disallowing as excessive compensation the bonuses which petitioner paid to its two officers during each of the taxable years here involved. The second is whether the respondent erred in increasing petitioner's income for each of the taxable years by the amount of the proceeds from the sale of scrap which had all been paid over to its two officers and returned by them and their respective wives as taxable income and whether if such proceeds should be taken into petitioner's gross income, petitioner should be allowed as an additional amount for salary deductions, the amounts so paid over to Kennedy and Hayek. The third is whether the respondent erred in determining that petitioner was subject to the surtax on corporations imposed by section 102 of the Internal Revenue

Code, as amended, for each of the taxable years ended June 30, 1941 and June 30, 1942.

The first two issues are closely related and will be considered together. During each of the taxable years here involved petitioner paid each of its two officers a \$5,000 bonus and also paid over to each of its two officers 50 per cent of the proceeds from the sale of scrap. Petitioner did not return any of the proceeds from the sale of scrap as income or deduct any amount on account of the payment of such proceeds to its officers. Hayek and Kennedy and their respective wives each reported one-fourth of such proceeds as income from the sale of scrap. Petitioner in substance now concedes that it should have reported the proceeds from the sale of scrap as its income, but contends that it should also have deducted a like amount as compensation paid to its two officers in addition to the bonuses and regular salaries. During each of the taxable years here involved petitioner deducted \$10,000 on account of the bonuses paid and [35] \$24,000 on account of the regular salaries paid to each of its two officers. The respondent allowed as deductions the regular salaries; disallowed as deductions the bonuses; included in petitioner's income the proceeds from the sale of scrap; and contends that in no event is petitioner entitled to deductions from gross income as reasonable compensation paid its officers any amount in excess of the regular salaries. The first two issues, therefore, resolve themselves into the single question of whether petitioner is entitled to deduct under sec-

tion 23 (a)(1)(A) of the Internal Revenue Code, as amended,<sup>1</sup> as "a reasonable allowance for salaries or other compensation for personal services actually rendered" all the amounts paid to its two officers during the taxable years here involved. These amounts are as follows:

# **<sup>1</sup>SEC. 23. DEDUCTIONS FROM GROSS INCOME.**

In computing net income there shall be allowed as deductions:

## **(a) Expenses.**

### **(1) Trade or Business Expenses.**

(A) In General. All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered; traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business; and rentals or other payments required to be made as a condition to the continued use or possession, for purposes of the trade or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity. [36]

	Taxable Year Ended June 30, 1941	Taxable Year Ended June 30, 1942
Regular salary to Hayek.....	\$12,000.00	\$12,000.00
Regular salary to Kennedy.....	12,000.00	12,000.00
Bonus to Hayek.....	5,000.00	5,000.00
Bonus to Kennedy.....	5,000.00	5,000.00
Scrap proceeds to Hayek.....	936.58	858.18
Scrap proceeds to Kennedy.....	936.58	858.18
<b>Totals.....</b>	<b>\$35,873.16</b>	<b>\$35,716.36</b>

The respondent concedes that the regular salaries paid to both Hayek and Kennedy are deductible. He contests only the bonuses and scrap proceeds paid to each officer for each year. He contends that these latter payments were in effect dividends in disguise. Petitioner contends that the total amounts paid represented reasonable compensation for personal services actually rendered. The question presented is one of fact and the burden of proof is upon petitioner. *Botany Worsted Mills vs. United States*, 278 U. S. 282; *H. Levine & Bros., Inc., vs. Commissioner*, 101 Fed. (2d) 391.

Section 19.23(a)-6 of Treasury Regulations 103, provides among other things that the test of deductibility in case of compensation payments is whether they are reasonable and are in fact payments purely for services. It uses the following as an illustration:

\* \* \* An ostensible salary paid by a corporation may be a distribution of a dividend on stock. This is likely to occur in the case of a corporation having few shareholders, practically all of whom draw salaries. If in such a case the salaries are in excess of those ordinarily paid for similar services, and the excessive payments correspond or bear a close relationship to the stock holdings of the officers or employees, it would seem likely that the salaries are not paid wholly for services rendered, but that the excessive payments are a distribution of earnings upon the stock. [37]

Like regulations have been held to be fair interpretations of the Congressional intention. *H. Levine & Bros., Inc., vs. Commissioner, supra.*

Except for one qualifying share, 50 per cent of petitioner's stock was owned by Hayek and the other 50 per cent was either owned by Kennedy as his separate property or by Kennedy and his wife as community property. Since both Hayek and Kennedy were employed by petitioner and devoted all of their time to petitioner's business, it would not make much difference, if any, to petitioner and its stockholders, except taxwise, whether petitioner distributed its earnings as dividends or in the form of compensation. Under such circumstances close scrutiny is invited.

Petitioner has declared or paid no dividends as such since the fiscal year ended June 30, 1938. During that year it paid a dividend of \$5,006 which is 20 per cent of its capital stock. During that year it paid its officers a total compensation of \$15,322.40 and had a net profit after taxes of \$4,860.97. During the next four years petitioner's net profits after taxes increased materially over each preceding year. Notwithstanding these increased profits petitioner did not declare or pay any dividends, as such, but did materially increase the compensation paid its two officers at two different times. The first increase, voted on April 30, 1940, was made retroactive to July 1, 1939, and increased the salary of each officer to \$12,000 per year. This was a total increase over the previous year of \$9,011.30, or about 36 per cent of the capital stock. The second increase, voted



on June 11, 1941, was made retroactive to July 1, 1940, and increased the compensation of each officer by \$5,000 per year. This together with the scrap proceeds amounted to a total increase over the previous year of \$11,678.36, or about 46 per cent of the capital stock. Of course, if the total payments to Hayek and Kennedy were in fact payments purely for services and were reasonable under all the circumstances, they would be deductible under section 23 (a) (1) (A) of the Code in any event. The Christman Company, 8 T.C. . . . , promulgated March 31, 1947.

We do not think that under all the circumstances the bonuses paid to Hayek and Kennedy can be considered in fact payments purely for services. We think that under all the circumstances these payments must be regarded in the nature of dividend distributions on stock and we have so found as an ultimate fact in our findings.

Petitioner in its briefs contends that considerable weight should be given to the testimony of Charles W. Miller, one of the partners of Miller Dial & Nameplate Company. The latter company was the principal competitor of petitioner in the Los Angeles area. During 1942, this competitor paid its two partners total salaries of \$42,000. Miller's testimony can not be given the weight for which petitioner contends for the reason that during the years 1941 and 1942 Miller Dial & Nameplate Company was a partnership and not a corporation. As a partnership it could easily distribute all of its earnings in the form of salaries to its partners without



being questioned by the taxing authorities. That is not true in the case of corporations where consideration must be given to whether the payments are in fact purely for services actually rendered and whether they were reasonable under all the circumstances. Cf. *Woodcliff Silk Mills.*, 1 B.T.A. 715.

There is no doubt that both Hayek and Kennedy worked long hours during the taxable years here involved and were very competent men in the line of work in which petitioner was engaged. But only about two months prior to the beginning of the taxable years here involved their regular salaries were substantially increased up to \$12,000 per annum for each officer. This represented an increase of more than 59 per cent over the preceding year. For the reasons previously given and the fact that no dividends as such were declared since June 30, 1938, we think that \$12,000 a year for each officer plus the scrap sales is all that can reasonably be allowed as deductions under section 23 (a)(1)(A), *supra*, for the taxable years here in question. Cf. *Am-Plus Storage Battery Co. v. Commissioner*, 35 Fed. (2d) 167; *A. David Co. v. Grissom*, 64 Fed. (2d) 279; *Crescent Bed Co., Inc., v. Commissioner*, 133 Fed. (2d) 424; and *The Shield Company, Inc.*, 2 T.C. 763. We hold, therefore, that the respondent's determination as to the bonuses was correct. It follows that during the taxable years here involved petitioner is only entitled to deduct under section 23 (a)(1)(A), *supra*, the total amounts of \$24,000 for each year plus the payments from the

scrap sales as reasonable compensation paid its officers Hayek and Kennedy.

We will now consider the third issue as previously stated. The material provisions of section 102, except for the rates of tax, are identical for each of the taxable years ended June 30, 1941 and 1942, and are in the [40] margin.<sup>2</sup>

The respondent does not contend that petitioner was "formed" for the purpose of avoiding surtax upon shareholders. Neither does he contend that during the taxable years petitioner was "a mere holding or investment company" as that term is used in section 102 (b). It is clear, of course, that petitioner was not a mere holding or investment company and that it was not formed for the inter-

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**<sup>2</sup>SEC. 102. SURTAX ON CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS.**

(a) Imposition of Tax. There shall be levied, collected, and paid for each taxable year (in addition to other taxes imposed by this chapter) upon the net income of every corporation (other than a personal holding company as defined in section 501 or a foreign personal holding company as defined in Supplement P) if such corporation, however created or organized, is formed or availed of for the purpose of preventing the imposition of the surtax upon its shareholders or the shareholders of any other corporation, through the medium of permitting earnings or profits to accumulate instead of being divided or distributed, a surtax equal to the sum of the following:

\* \* \* \*

(b) Prima Facie Evidence. The fact that any corporation is a mere holding or investment com-

dicted purpose. The issue is therefore narrowed to whether petitioner was "availed of for the purpose of preventing the imposition of the surtax upon its shareholders \* \* \* through the medium of permitting earnings or profits to accumulate instead of being divided or distributed \* \* \*."

The respondent determined and he contends that during the taxable years here in question petitioner permitted its earnings or profits "to accumulate beyond the reasonable needs of the business" as that phrase is used in section 102 (c). By virtue of section 102 (c), the accumulation or earnings or profits beyond the reasonable needs is determinative of a purpose to prevent the imposition of the surtax upon the shareholders, unless the petitioner by a clear preponderance of evidence proves to the contrary. See *Whitney Chain & Mfg. Co.*, 3 T.C. 1109, affirmed 149 Fed. (2d) 936.

The determination of whether petitioner during the taxable years in question permitted its earnings or profits "to accumulate beyond the reasonable needs of the business" or whether petitioner was "availed of" for the interdicted or condemned purpose are questions of fact to be determined from all of the evidence. See sections 19.102-2 and

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pany shall be prima facie evidence of a purpose to avoid surtax upon shareholders.

(c) Evidence Determinative of Purpose. The fact that the earnings or profits of a corporation are permitted to accumulate beyond the reasonable needs of the business shall be determinative by the purpose to avoid surtax upon shareholders unless the corporation by the clear preponderance of the evidence shall prove to the contrary. [41]

19.102-3 of Treasury Regulations 103. See also *Helvering v. National Grocery Co.*, 304 U.S. 282; *Helvering v. Chicago Stock Yards Co.*, 318 U.S. 693; *Cecil B. DeMille Productions, Inc.*, 31 B.T.A. 1161, affirmed 90 Fed. (2d) 12, certiorari denied 302 U.S. 713. [42]

We think petitioner has met its burden of proof. Upon the evidence received at the hearing we have found as ultimate facts that during the taxable years in question petitioner did not permit its earnings or profits to accumulate beyond the reasonable needs of its business and that it was not availed of for the purpose of avoiding surtax upon its shareholders. The evidentiary facts in support of these ultimate findings are set out in considerable detail in our findings and need not be repeated here except in very brief summary form.

After Kennedy's experience upon behalf of petitioner in 1931 of attempting to refinance a second mortgage, petitioner adopted a policy of financing all capital additions from its earnings rather than in part through loans. In this connection Kennedy testified that in 1931 he tried everybody in Los Angeles whom he thought would loan money; that he was unable to find anyone in Los Angeles who would take the mortgage; that he finally was able to find a bank in Chicago who advanced a part (\$6,000) of the funds necessary to refinance the mortgage; that Hayek put up the balance that was necessary; and that

I spent the worst six months, I think, that I ever spent in my life at that time, and we had

to make it up between us or lose the business. It was really terrific. I determined I would never get myself into debt to a bank again.

The statute does not prohibit such a policy as petitioner adopted after its 1931 experience. It is only when the accumulation goes "beyond the reasonable needs of the business" that the statute is apt to apply. See *General Smelting Co.*, 4 T.C. 313, 323. [43]

In the instant proceeding both Hayek and Kennedy testified at considerable length as to certain needs of the business for which petitioner was accumulating its earnings. These may be summarized in minimum amounts as follows:

New building .....	\$150,000
Moving to new building.....	24,000
New lithographic press.....	38,000
Installation of infra red conveyors.....	12,000
Additional plating facilities.....	15,000
Anodizing license and equipment.....	15,000
Plastic and other equipment.....	25,000
<hr/>	
Total.....	\$279,000

We are convinced from the evidence that the above business needs as testified to by Hayek and Kennedy are all reasonable requirements for the continued successful operations of petitioner's business. As was said in *William C. deMille Productions, Inc.*, 30 B.T.A. 826, "it must be assumed that any business shall have the right to grow." During the taxable years petitioner purchased the Boyle Avenue property at a cost of about \$8,000 as the

intended site for its new building and spent \$19,-438.40 for additions to its plant and equipment. For the reasons stated in our findings this site proved not suitable as a site for petitioner's new building and petitioner is now endeavoring to exchange it for a property more adaptable to petitioner's needs. A great many of these necessities as testified to by Hayek and Kennedy cannot be installed until the new building is erected.

In view of all the facts we do not think the accumulations during the taxable years were unreasonable. During the two taxable years here involved petitioner's surplus increased from \$42,183.61 to \$114,185.01, an increase of \$72,001.40. This increase is made up of earnings for 1941 of \$30,232.46; earnings for 1942 of \$41,150.25; and miscellaneous credits to surplus of [44] \$618.69. These earnings for 1941 and 1942, totaling \$71,382.71, are the earnings after deducting Federal taxes already paid of \$67,-307.08. The latter amount does not include the deficiencies here in question totaling \$30,098.59. In view of our holding on the issue of the reasonableness of salaries, a substantial portion of these total deficiencies plus interest will have to be paid. After considering all the evidence we think it is apparent that petitioner's accumulations at the end of the taxable year 1942 fell short of being sufficient to meet the reasonable needs of petitioner's business, present and prospective, within the reasonable future.

In his brief the respondent makes reference to



the needs testified to by petitioner's officers in the total minimum amount of \$279,000, and says:

\* \* \* Respondent recognizes that this Court and the appellate courts have held that a corporation may accumulate gains and profits consonant with the needs of the business without being liable for the tax in question, nevertheless, he submits that considering all of the evidence of record the petitioner has failed to justify the accumulation herein involved. With respect to the expenditure of \$150,000 for a new building the Court's attention is directed to the fact that the petitioner gives no consideration at all to the use of credit or to the fact that there would be some realization from the sale of its present plant which was carried out on the books at a value of \$58,000 and in all probability had a market value considerably in excess of this figure. [54]

We do not understand that section 102 of the Internal Revenue Code and the regulations promulgated thereunder prevent a taxpayer corporation from making a reasonable accumulation of its earnings to finance expansion and modernization programs out of its own funds rather than to resort to borrowing for that purpose. *General Smelting Co. supra.* As to whether there would be some realization from the sale of petitioner's present plant, the answer is that of course there would be. The \$58,000 figure mentioned by the respondent (which is cost of \$79,512.41 less depreciation of \$20,783.13)

is a part of petitioner's accumulated surplus of \$111,185.01. If that amount were not carried as an asset, petitioner's surplus would be that much less.

The respondent contends that a strong factor in support of his determination is the fact that petitioner has declared or paid no dividend, as such, since the fiscal year ended June 30, 1938. Our holding on the first issue, however, mitigates considerably the force of this contention. Under the first issue we held that the total amounts paid to petitioner's officers as bonuses during the taxable years were not deductible by petitioner as ordinary and necessary expenses in the form of compensation but were in the nature of dividend distributions on stock.<sup>3</sup> We think under all the circumstances these amounts must be treated as dividends. Therefore, it is not correct to consider this proceeding as one in which no dividends were paid.

We, therefore, sustain the petitioner on this issue.

Decision will be entered under Rule 50.

Entered May 29, 1947. [47]

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<sup>3</sup>See section 19.23 (a)-7 of Treasury Regulations 103, which among other things provides: "Thus, in the case of excessive payments by corporations, if such payments correspond or bear a close relationship to stock holdings, and are found to be a distribution of earnings or profits, the excessive payments will be treated as a dividend." [46]

[Title of Tax Court and Cause.]

MOTION TO VACATE AND SET ASIDE THE  
MEMORANDUM FINDINGS OF FACT  
AND OPINION

Comes now the petitioner, Kennedy Name Plate Company, by Preston D. Orem and C. Earle Memory, its counsel, and moves the Tax Court of the United States to vacate and set aside its decision and memorandum findings of fact and opinion dated May 29, 1947, and in support of said motion states as follows:

1. That the Tax Court of the United States is an agency of the Government of the United States within the meaning of Section 2 of the Administrative Procedure Act (Chapter 324—Public Law 404) and Eugene Black, Judge of the Tax Court of the United States, is a presiding officer of that agency within the meaning of Sections 7 and 8 of the Administrative Procedure Act. The Lincoln Electric Co. vs. Com., Sixth Circuit Court of Appeals—decided June 5, 1947.

2. That on June 12, 1946, a hearing was held in Docket No. 6695 at Los Angeles, California, which hearing was presided over by said Eugene Black, Judge of the Tax Court of the United States. [48]

3. That on June 9, 1947, petitioner, through its counsel, received a copy of the Memorandum Find-

ings of Fact and Opinion in Docket No. 6695 dated May 29, 1947, by United States mail from the said Court.

4. That said Memorandum Findings of Fact and Opinion dated May 29, 1947, was an initial decision of the said Court within the meaning of Section 8 (A) of the Administrative Procedure Act, but was served on petitioner without notice and without giving petitioner a reasonable time to submit its objections and exceptions to said initial decision together with its reasons in support of said objections and exceptions, pursuant to Section 8 (B) of the Administrative Procedure Act.

Wherefore petitioner prays:

(1) That the Memorandum Findings of Fact, heretofore entered herein dated May 29, 1947, be withdrawn.

(2) That petitioner be granted a reasonable time to file its objections and exceptions to the proposed findings of fact and opinion, pursuant to the Administrative Procedure Act.

Dated: June 18, 1947.

/s/ PRESTON D. OREM,

C. EARLE MEMORY, C.P.A.

Counsel for petitioner.

Received and filed June 20, 1947. [49]

[Title of Tax Court and Cause.]

ORDER DENYING MOTION TO VACATE  
AND SET ASIDE MEMORANDUM FIND-  
INGS OF FACT AND OPINION HERETO-  
FORE ENTERED

On May 29, 1947, we entered Memorandum Findings of Fact and Opinion in this proceeding. On June 20, 1947, petitioner filed a motion to vacate and set aside the Memorandum Findings of Fact and Opinion which had been entered on said date. The motion has been carefully read and considered and it is believed that it should be denied.

Ordered that said motion be and it is hereby denied.

/s/ EUGENE BLACK,

Judge.

Dated at Washington, D. C., July 14, 1947.

Served: July 15, 1947. [50]

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The Tax Court of the United States  
Washington  
Docket No. 6695

KENNEDY NAMEPLATE COMPANY,  
Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

DECISION

Pursuant to the determination of the Court as set forth in its Memorandum Findings of Fact and

Opinion entered May 29, 1947, the respondent herein filed a proposed recomputation on July 9, 1947, to which petitioner filed its acquiescence July 29, 1947, now, therefore, it is

Ordered and Decided, that there are deficiencies in income tax for the taxable years ended June 30, 1941 and June 30, 1942 in the respective amounts of \$2,083.19 and \$1,413.68; there are deficiencies in declared value excess-profits tax for the taxable years ended June 30, 1941 and June 30, 1942 in the respective amounts of \$1,320.01 and \$1,320.00; and there are deficiencies in excess profits tax for the taxable years ended June 30, 1941 and June 30, 1942 in the respective amounts of \$2,023.31 and \$4,119.75.

/s/ EUGENE BLACK,

Judge.

Entered: July 30, 1947.

Served: July 30, 1947. [51]

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In the United States Court of Appeals

For the Ninth Circuit

Tax Court Docket No. 6695

KENNEDY NAME PLATE COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE.

Respondent.

PETITION FOR REVIEW

Kennedy Name Plate Company, the petitioner herein, by Preston D. Orem, counsel, hereby files



its petition for a review by the United States Court of Appeals for the Ninth Circuit of the decision by The Tax Court of the United States entered on July 30, 1947, under Rule 50 of said Tax Court, subsequent to the entry of Memorandum Findings of Fact and Opinion entered May 29, 1947, determining deficiencies in the petitioner's income tax for the taxable years ended June 30, 1941 and June 30, 1942 in the respective amounts of \$2,083.19 and \$1,413.68; deficiencies in declared value excess-profits tax for the taxable years ended June 30, 1941 and June 30, 1942 in the respective amounts of \$1,320.01 and \$1,320.00; and deficiencies in excess profits tax for the taxable years ended June 30, 1941 and June 30, 1942 in the respective amounts of \$2,023.31 and \$4,119.75.

## I.

The petitioner, Kennedy Name Plate Company, is a corporation duly organized and existing under and by virtue of the laws of the State of California, with its principal office in Los Angeles, [52] California.

Petitioner's income tax, declared value excess-profits tax and excess profits tax returns for the taxable years ended June 30, 1941, and June 30, 1942, in respect of which the deficiencies arise, were filed with the Collector of Internal Revenue for the Sixth California District in Los Angeles, California, which is located within the Circuit of the United States Court of Appeals for the Ninth Circuit.

II.

Nature of the Controversy

The controversy involves the proper determination of the petitioner's liability for federal income taxes, declared value excess-profits taxes, and excess profits taxes for the taxable years ended June 30, 1941, and June 30, 1942.

In its income and excess profits tax returns for the years ended June 30, 1941, and June 30, 1942, petitioner deducted under Section 23(a)(1)(A) of the Internal Revenue Code as "a reasonable allowance for salaries or other compensation for personal services actually rendered." All of the amounts paid to Joseph W. Hayek, president and director of petitioner, and William James Kennedy, secretary-treasurer and director of petitioner, for the said two taxable years, as follows:

	Taxable Year ended June 30, 1941	Taxable Year ended June 30, 1942
Joseph W. Hayek:		
Salary .....	\$12,000.00	\$12,000.00
Bonus .....	5,000.00	5,000.00
Scrap proceeds .....	936.58	858.18
Total .....	\$17,936.58	\$17,858.18
William James Kennedy:		
Salary .....	\$12,000.00	\$12,000.00
Bonus .....	5,000.00	5,000.00
Scrap proceeds .....	936.58	858.18
Total .....	\$17,936.58	\$17,858.18
Total—Both Officers .....	\$35,873.16	\$35,716.36

The respondent allowed only the salaries above given (\$12,000.00 to each officer for each year) as a deduction under the Internal Revenue Code section previously mentioned. The Tax Court has allowed as a deduction the salaries and scrap proceeds and has disallowed as a deduction the bonuses (\$5,000.00 to each officer for each year).

The disallowance of the bonuses to the two officers is the only item in issue, being wholly responsible for the determination of the deficiencies, as aforesaid, by The Tax Court of the United States.

### III.

Petitioner, being aggrieved by the findings of fact and conclusions of law contained in the said findings and opinion of the Court, and by its decision entered pursuant thereto, desires to obtain a review thereof by the United States Court of Appeals for the Ninth Circuit.

### IV.

#### Assignments of Error

The petitioner assigns as error the following acts and omissions of The Tax Court of the United States:

(1) The failure to allow as a deduction under section 23 (a)(1)(A) Internal Revenue Code, as reasonable compensation for services rendered by its two officers any amount in excess of the regular salaries paid each year in the total amount of \$24,000.00 plus proceeds from the scrap sales.

(2) The holding that the payment of the bonuses

to the two officers in the total amount of \$10,000.00 for each year were in the nature of dividend distributions on stock and not deductible by petitioner as ordinary and necessary expenses under section 23 (a)(1)(A) of the Internal Revenue Code.

(3) The finding of deficiencies for the taxable years ended June 30, 1941 [54] and June 30, 1942, in lieu of a determination that there were no income taxes, declared value excess-profits taxes and excess profits taxes due from the petitioner for the two years in controversy.

/s/ PRESTON D. OREM,  
Counsel for Petitioner.

State of California,  
County of Los Angeles—ss.

Preston D. Orem, being first duly sworn, says that he is counsel of record in the above-named cause; that as such counsel he is authorized to verify the foregoing petition for review; that he has read the said petition and is familiar with the statements contained therein; and that the statements made are true to the best of his knowledge, information and belief.

/s/ PRESTON D. OREM.

Subscribed and sworn to before me this 23rd day of October, 1947.

[Seal] ELSIE HERZBERG,  
Notary Public, County of Los Angeles, State of  
California.

My commission expires Feb. 7, 1950.

Received and filed Oct. 27, 1947. [55]

[Title of Court and Cause.]

NOTICE OF FILING PETITION  
FOR REVIEW

To Charles Oliphant, Chief Counsel, Bureau of  
Internal Revenue, Washington, D. C.:

You are hereby notified that the petitioner on the 27th day of October, 1947, filed with the Clerk of The Tax Court of the United States at Washington, D. C., a petition for review by the United States Court of Appeals for the Ninth Circuit of the decision of The Tax Court of the United States heretofore rendered in the above-entitled cause. A copy of the petition for review as filed is hereto attached and served upon you.

Dated at Los Angeles, California, this 27th day of October, 1947.

/s/ PRESTON D. OREM,  
Counsel for Petitioner.

Personal service of the foregoing notice, together with a copy of the petition for review mentioned therein, is hereby acknowledged this 27th day of October, 1947.

CHARLES OLIPHANT,  
Chief Counsel, Bureau of In-  
ternal Revenue,  
Counsel for Respondent.

Received and filed Nov. 3, 1947.

The Tax Court of the United States

Docket No. 6695

KENNEDY NAME PLATE COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE.

Respondent.

EXCERPTS FROM TRANSCRIPT  
OF HEARING

At Los Angeles, California, June 12, 1946

(Oral Testimony Included in Petitioner's  
Designation on Appeal)

Filed July 1, 1946.

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(Met pursuant to notice.)

Before: Hon. Eugene Black,  
Judge.

Appearances:

Preston D. Orem, Esq., 416 West Eighth Street,  
Los Angeles, California, appearing on behalf of  
Kennedy Nameplate Company, Petitioner.

E. A. Tonjes, Esq., (Honorable J. P. Wenchel,  
Chief Counsel, Bureau of Internal Revenue), ap-  
pearing on behalf of the Commissioner of Internal  
Revenue.

Proceedings

The Clerk: 6695, Kennedy Nameplate Company.



The Court: Note the appearances for the Petitioner and Respondent in this case.

Mr. Orem: Appearing for the Petitioner is Preston D. Orem, Esquire, and C. Earle Memory, C. P. A.

Mr. Tonjes: E. A. Tonjes for the Respondent.

The Court: Very well. Mr. Orem, you may state the issues in this case.

Opening Statement on Behalf of the Petitioner  
(By Mr. Orem)

Mr. Orem: If your Honor please, this case involves two issues, the reasonableness of the compensation of two officers of the Petitioner in the years ended June 30, 1941 and June 30, 1942, and for those same years Section 102, involving surtax on corporation's allegedly accumulating surplus beyond the needs of the business, instead of declaring dividends.

Those are the two issues. This Petitioner is not a "war baby". It and its predecessors have been continuously in existence since the year 1917, when Mr. Joseph Hayek, who was president of the Petitioner, former the Hayek Nameplate Company in Minneapolis, Minnesota.

In 1921 Mr. James W. Kennedy, who is secretary and treasurer of the Petitioner, purchased the assets of that [60] original business, of which Mr. Hayek was principal stockholder.

Mr. Kennedy then immediately moved the business to Los Angeles. He formed a partnership

with his uncle here, which lasted a long time, then Mr. Hayek came out here and bought out Mr. Kennedy's uncle and became an equal partner with Mr. Kennedy in the Kennedy Nameplate Company, then a partnership, each owning 50 per cent.

In August 1923 the assets of the corporation were acquired by a new California corporation, the Kennedy Nameplate Company, in exchange for \$25,000.00 in stock of the new corporation. By the way, there have been no issues since that original initial one, and that stands unchanged.

Mr. Hayek acquired 50 per cent of the stock and became president and production manager of the company and has so continued to the present time. Mr. Kennedy acquired 50 per cent of the stock and became secretary and treasurer and in charge of all departments except production and has so continued to the present time.

The words "Nameplate Company" are to some extent a misnomer, because the business of the corporation includes a great many items which cannot be termed nameplates.

The salaries drawn by the officers, Messrs. Hayek and Kennedy, up to the year ending in 1940 were very moderate. The salaries for the fiscal years ended in 1937, 38 and 39 were [61] \$7500.00 each, and for 1940 \$12,000.00 each. These later salaries were continued for the years 1941 and 1942, but in these later years the two officers also drew a bonus of \$5,000.00 each for each year, which have been disallowed by the Commissioner as exceeding

a reasonable allowance for services rendered under section 23 of the Code.

The Commission has also added to income for the year 1941 the sum of \$1,873.16. That was from proceeds of the sale of scrap. They had a large accumulation of scrap in the pile. That pile of scrap was sold and the proceeds were retained by the new officers, in the amount of \$936.58 each, and reported as income in their returns but not in the tax return of this company.

For the period ending June 30, 1942, the sum of \$1,716.36 was realized from the sale of the scrap and the proceeds were retained by the two officers, in the amount of \$858.18 each. These sales of scrap were not recorded upon the **Petitioner's books**, but were picked up on the individual tax returns of the two officers and their respective wives as sales of scrap.

And the Commissioner has also proposed a surtax under the provisions of Section 102, as previously stated, and the foregoing are the issues in the case.

Petitioner will, in the course of its testimony, offer a showing of the background and experience of officers [62] of the company, their services to the Petitioner, duties, the hours worked, standing in the industry, the fact that they have devised new products, new methods of manufacture, techniques, et cetera.

Petitioner will also offer the testimony of expert witnesses capable of forming an opinion, opinions

with respect to the reasonableness of the compensation of the two officers.

Petitioner's case under Section 102 will require detailed testimony by those officers in which we will show that it was necessary for the corporation to retain all of its surplus as working capital for the reasonable future needs of the business, such as additions to its plant, machinery and equipment, reserves for losses from reconversion, replacements, et cetera.

I think that is a brief statement of the case for Petitioner.

The Court: Very well. Mr. Tonjes, do you have any statement?

Opening Statement on Behalf of the Respondent  
(By Mr. Tonjes)

Mr. Tonjes: I do not think I need to make a lengthy statement, your Honor. The issues are clear. The Respondent contends that the compensation of officers allowed by him in the notice of deficiency were reasonable for the services [63] rendered by those officers, and on the question with regard to the imposition of the tax under Section 102 Respondent believes the evidence will show that the accumulation of earnings or profits far exceed the reasonable needs of the business, taking into consideration those things which should reasonably be anticipated.

The Court: Very well. We are ready to receive the evidence now in the case. [64]

Whereupon,

WILLIAM JAMES KENNEDY

called as a witness for and on behalf of the Petitioner, having been first duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Orem:

Q. I show you here, Mr. Kennedy—state your full name, please.

A. William James Kennedy.

Q. What is your position with the Kennedy Nameplate Company?

A. Secretary and treasurer.

Q. Did you hold office during the years 1940, 1941 and 1942?

A. I did.

Q. I show you what purports to be the original minutes of the company at a meeting held April 30, 1940, containing the signatures of the directors and officers. Can you identify that document?

A. Yes, I can.

Q. Is that a true and correct copy of the minutes of that date?

A. Yes. [65]

Q. I show you what purports to be a copy of the minutes of a regular meeting of the board of directors of June 11, 1941. Is that a true and correct copy of the minutes for that date?

A. It is.

Mr. Orem: These are offered by the Petitioner as exhibits.

Mr. Tonjes: There is no objection.

(Testimony of William James Kennedy.)

The Court: They will be received in evidence as Petitioner's Exhibits 7 and 8.

(The minutes of the meeting referred to were marked and received in evidence as Petitioner's Exhibits Nos. 7 and 8.)

Q. (By Mr. Orem): Now, you are familiar, are you not, with the by-laws of the Kennedy Nameplate Company?

A. To a considerable extent, yes.

Q. And they were first adopted by the company, were they not, in 1923, when it was incorporated?

A. They were.

Q. Have they ever been amended since?

A. Never.

Q. Will you examine this document and see if those are true and correct copies of certain excerpts from the by-laws?

A. To the best of my knowledge and belief, [66] it is.

Q. I will read this Article 5, Section 2, "Powers of Directors requiring fixing compensation of officers, agents and employees of the corporation and requiring from them security for faithful service." Is that the only provision in the by-laws relating to the fixing of the compensation of officers?

A. To my knowledge. That is the only part that I know of.

Q. I will read Article 6, on the duties of directors: "To declare dividends out of the surplus profits when such profits shall, in the opinion



(Testimony of William James Kennedy.)

of the directors, warrant the same, to accumulate profits and reinvest them in such manner as the directors may deem proper." Is that, to your knowledge——

A. That is to my knowledge.

Mr. Orem: I offer that as an exhibit for the Petitioner.

Mr. Tonjes: No objection.

The Court: Petitioner's Exhibit No. 9 is received.

(The excerpts from by-laws referred to were marked and received in evidence as Petitioner's Exhibit 9.)

Q. (By Mr. Orem): Mr. Kennedy, how long have you continuously held the office of secretary and treasurer of the Kennedy Name plate Company? [67]

A. About 23, since August 1923.

Q. That was at the time the company was formed? A. That is correct.

Q. Have you also been continuously a director of the company from 1923 to date? A. I have.

Q. When was the Kennedy Nameplate Company incorporated under the laws of what state?

A. The State of California, August 19, 1923.

Q. Then, from the time 1923 down to the present date did you devote any part of your time to any business other than the Kennedy Nameplate Company? A. Never.

Q. Now, will you state the extent of your tech-

(Testimony of William James Kennedy.)

nical education prior to entering into business life?

A. Well, my technical education was probably not particularly technical in the sense that the phrase implies. I went to business college for three years after I graduated from high school, and completed two courses with the International Correspondence School and took one year tuition in Spanish and commerce and other miscellaneous studies.

Q. Did you engage in any post graduate work at the Southern California University?

A. I did.

Q. How many years? [68]

A. About six years.

Q. What did you study there?

A. Advertising and selling, business management, various things connected with my particular duties.

Q. During what years was that, approximately?

A. That was from on or about 1926 up to 1934 or 1935.

Q. Were you a director of any college at any time?

A. I was a director of University College, which was the extension division of S. C., for two years.

Q. What years?

A. That, I believe, was 1931 to 1933.

Q. Prior to your connection with the Kennedy Nameplate Company, what position did you hold?

A. I was a—well, do you mean just immediately prior?

(Testimony of William James Kennedy.)

Q. Well, starting right from the beginning—I will see if I can save time by asking you whether you were ever connected with Marshall Field and Company? A. I was.

Q. Was that 1912 to 1914? A. Correct.

Q. And from 1914 to 1915 were you assistant to the vice-president of Wilson & Company?

A. I was, then known as Sulzberger & Sons.

Q. And during the years 1915 and 1917 were you an executive of Stewart Mfg. Co. of Chicago?

A. I was an executive for part of the time.

Q. You were employed with them during those years how?

A. Particularly with the Stewart Manufacturing Division of Stewart-Warner.

Q. Did you become connected in 1917 with the National Products Company of New York City?

A. Yes, sir, I was.

Q. What was your position with them?

A. I was office manager of the New York office and in charge of the agency operated for South America and all the duties of the office.

Q. Were you purchasing agent at any time?

A. Subsequently purchasing agents worked under me. I did purchasing agent work in New York.

Q. Did you have anything to do with sales of by-products?

A. Yes, I took complete charge of the sales of all by-products.

Q. Everything for South America?

A. Yes.

(Testimony of William James Kennedy.)

Q. What was the name of the company down there?

A. The name of the company, we operated two South American companies, one was known as Compania Central de Productos, and the other company Compania Internacional de Productos.

Q. In what places did they operate? [70]

A. Paraguay, Argentine, part of Brazil and part of Uruguay.

Q. What was your position down there?

A. My position down there was one of managing the concern.

Q. You were an executive then?

A. I was executive of the South American companies.

Q. From at least 1916 on you were an executive of those various companies.

A. Yes. In South America I had more of a manager position than I had in New York.

Q. You were, as a matter of fact, managing the business?

A. I managed several departments. I had charge of all of their sales, which included their almacens, then I did purchasing in connection with the purchasing office in New York for the companies down there, and sales of all by-products, which meant the bones, hides, import and export. I also had charge of all relations with the government.

Q. And that was down to the end of 1921?

(Testimony of William James Kennedy.)

A. I resigned about the 1st of March, I think, of 1921.

Q. Did you then engage in the nameplate business?

A. I came to the United States, returned to the United States in March, 1921, and got into the nameplate business about June of that same year.

Q. At that time you purchased, did you not, the Hayek Nameplate Company? [71]

A. I did.

Q. Hayek Nameplate and Novelty Company of Minneapolis.

A. My uncle and myself purchased that company.

Q. You became acquainted with Mr. Joseph Hayek at that time, did you not? A. I did.

Q. He was principal owner of that company?

A. As far as I knew he was.

Q. Did you move that business to Los Angeles?

A. We did.

Q. Immediately after you purchased?

A. As soon as we could load it up and put it on a train.

Q. From 1921 to 1923 you operated here as the Kennedy Nameplate Company, a partnership, did you not?

A. Yes, sir, a fictitious trade name.

Q. Then Mr. Joseph Hayek came out and purchased your uncle's half interest in the firm?

A. Yes, sir, and this uncle of mine was a wealthy

(Testimony of William James Kennedy.)

man and rather old and he didn't want it particularly and was willing to sell out because the business was not doing so very good at that time.

Q. Immediately before you went in the nameplate business, which was in June 1921, during the last full year that you were employed then, which would be the year 1920, what were [72] your annual earnings?

A. From the company around \$8000.00 a year.

Q. Did you have other allowances that increased this?

A. I had a traveling allowance of various kinds, and then, of course, they took care of my living expenses for several months of the year. I traveled a great deal.

Q. At the time you purchased the Hayek Nameplate and Novelty Company in Minneapolis, did you have some salary offers from other companies about that time?      A. Well, previously.

Q. From what company did you have those salary offers?

A. I was offered a salary of \$10,000.00 a year from a Japanese firm in Japan, then I had an offer from a Brazilian steamship company, also the Johnson Steamship Company, a salary of \$25,000.00 a year there.

Q. Did you also have an offer from a canning company in Indiana?

A. In Indiana they wanted me to take over a factory making pasta for Italians, that is tomato sauce.



(Testimony of William James Kennedy.)

Q. Just what were you to get paid for that work?

A. They wanted me to take over the factory, and talking about this job in South America for the steamship company there in Brazil, I just didn't like South America or I would have taken it.

Q. Now, coming down to the years ended June 30, 1941, [73] and June 30, 1942, which are the years in question here, state what your duties were with the Kennedy Nameplate Company; you were secretary, treasurer and director. Just what were your general duties?

A. I have complete charge of all sales, advertising, all of the business, all the various parts of the business not connected with production.

Q. Did you have anything to do with the pricing of the goods?

A. Oh, yes, I figured the prices.

Q. How about the employment of technical personnel?

A. I employed some technical personnel and Mr. Hayek employed others.

Q. How about collections, did you handle collections?

A. Oh, yes.

Q. And purchases?

A. And purchases under my supervision by Mr. Koelling.

Q. Did you also purchase?

A. Oh, yes, I did a great part of the work, because I did most of the contact work with him.

Q. Was it part of your duties to keep in con-

(Testimony of William James Kennedy.)

stant touch with new technological developments and processes?      A. It was.

Q. In other words, you might sum it up by saying you ran the business entirely other than actual production that [74] Mr. Hayek was in charge of?

A. Yes, I believe that would be pretty near right.

Q. In other words, it was a two-man affair?

A. Right.

Q. During the years ended June 30, 1941 and June 30, 1942, what were the approximate hours per day that you worked for the Kennedy Nameplate Company and how many days a week?

A. I worked five and a half days a week, that is, the business was open five and a half days a week, I believe that was when the Wage and Hour law came into effect at that time, which I think set the hours.

Q. Well, were you confined to those hours?

A. Oh, no.

Q. What hours did you personally work?

A. Well, I guess that I worked most of the time, because even my spare time was largely devoted to the business.

Q. What were the approximate hours per week?

A. I would say eight to ten hours a day.

Q. That is during the years 1941 and 1942?

A. Yes, I would think so.

Q. And does that include Saturday?

A. Yes, I very frequently worked on Saturdays, my Saturdays were frequently devoted to the

(Testimony of William James Kennedy.)

Q. Can you tell just generally, without divulging any trade secrets, just generally, what was the nature of those processes?

A. Well, they are better formulas used in etching, different processes for preparing the metal for etching, and different methods of etching out the metal so prepared, and different methods of finishing.

Q. Then later on in the years 1935 and 1939, did you enlarge the photo engraving department?

A. Yes, we did.

Q. Did you manufacture decalcomania transfers?

A. We did.

Q. When did you first commence the manufacture of such transfers, approximately?

A. I believe about 1936 or '37, around in there. I don't have that in my mind.

Q. And that also required purchasing new equipment, did it not?

A. Right. It is an entirely different product.

Q. Do you make plastic nameplates?

A. We do.

Q. When did you start such manufacture?

A. We commenced to manufacture plastic material nameplates during the war when metals became scarce.

Q. In other words, because of the war demand for metals, you had to substitute plastic?

A. That is correct.

Q. You used fibre, did you not?

A. We used fibre and different plastics.

(Testimony of William James Kennedy.)

Q. That made a very great change in the processes, did it not?

A. That just about turned the nameplate business upside down in 30 days.

Q. Has your work in plastics ever been recognized by any authorities?

A. Yes. We devised, I believe, a plastic which was satisfactory and found to be the most suitable nameplate plastic that was devised. In fact, it is used by other companies.

Q. Did you get recognition of that by the government or otherwise?

A. We got a number of citations from some of the aircraft companies. We had a lot of trouble in the trade with [79] all those citations, so we didn't really take them too seriously when they gave them out, although we have them in our office.

Q. Did you manufacture scales, dials and instruction and designation plates? A. We did.

Q. When did you start such manufacture?

A. There always was a certain amount of scales and dials tied in with the nameplates. The aircraft business was one of the main developments in such.

Q. In other words, that type of business was enormously increased, was it not?

A. That is right.

Q. And the regular nameplate business was very greatly decreased?

A. I have some samples of our scales——

Mr. Tonjes: I might suggest, your Honor, I

(Testimony of William James Kennedy.)

haven't made any objection but I might suggest that counsel is going pretty far in leading the witness, and I would suggest he ask questions instead of making a statement and having the witness say yes or no.

Mr. Orem: It is leading, but just to save time, that is the only purpose for some of these things.

Mr. Tonjes: Yes, but it is going a little far, counsel, the only objection I have. [80]

Q. (By Mr. Orem): Have you a scale of your manufacture with you? A. I have.

Q. Can you show that scale to us?

A. I can. We will take that first one there, then.

Mr. Orem: I will state the purpose of this witness is to show the Court just what kind of business the Petitioners are engaged in, which is far from nameplates. I mean that covers only a part of it.

The Witness: This is a scale which combines metal and plastics together. It is a bomb chart used on the B-24. This works like a slide rule. It has a place here to show how the different bombs are to be located in the regular stations. For example, there is a 500 pound bomb, shows the situation over here, and shows the purpose of that bomb here, the A.N. number, that is the Army-Navy number, the actual weight of the bomb, and on this side it shows the angle at which that bomb has to be released. The plastic inside is vinylite or vinyl chloride, the outside pieces are of acetate. This scale is also used by Ford.

(Testimony of William James Kennedy.)

Q. When did you first begin to make such scales, Mr. Kennedy?

A. Well, the development of the aircraft industry continued all along, 1941 and right straight through, but [81] actually this object here or this scale was made about 1943.

This scale, these scales here, this type here, this was made for airplane plants. The device was made about 1940 or 1941. I couldn't give you the date of any one of these devices we manufactured because there is no way I can recognize by looking at the job when it was made, but these were all made during the period under consideration.

Q. How does your volume for the years ended June 30, 1941, and June 30, 1942, the manufacture of such scales compare with the prior volume?

A. Well, I don't believe that there was any manufacture of scales in volume prior to that period. The scales we made would be a dial for a jeweler or something of that sort. The developments in that period made the scale business.

Q. Do those scales require more precision to make than a scale for a jeweler?

A. Well, no question about that. If they are not precise, they send them back to you.

Q. How often were the government inspectors there?

A. They sent inspectors out to the plant to inspect the stuff we had made and we had to get the people trained to make them, and the inspector comes to the plant with a blue print and he checks



(Testimony of William James Kennedy.)

the measurements from the copy, and then he approves, and then it may be shipped. Sometimes where the product goes to a distant place they may reserve the right [82] to inspect at destination.

Q. Just how close do these measurements have to approximate the constructed measurements?

A. Well, I guess at the average, there is a little decimal in there, at all times has to be plus or minus 5/1000ths.

Q. You mean only 5000 to the inch?

A. Plus or minus 5/1000ths. That is 5/1000ths of an inch.

Q. If they were much more than that or much less than that, what would happen?

A. They would reject them.

Q. What would happen then? Could you cure that?

A. No, make it over again. There were some dials down to 2/1000ths of an inch, and that is pretty fine.

Q. Now, what about dials? Have you a type of the dial with you that you manufacture?

A. Yes, this is a dial. There are also some plastic parts here.

Q. What is the purpose of that particular dial that you have in your hand there?

A. I couldn't tell you, because I don't know. To my mind it is just a dial, has nothing on it at all to show what it was used for. I don't remember what it was used for.

(Testimony of William James Kennedy.)

Q. Would it be a part of an airplane equipment? [83]

A. It will have some function on an airplane. I don't know what particular part it is.

Q. What was most of your dial business during the years ended June 30, 1941, and June 30, 1942?

A. Most of them were dials for Douglas, Consolidated, North American, Northrop, all the large aircraft companies, Vultee.

Q. And what were they to be used for?

A. Mostly instrument parts on planes.

Q. Did you make those dials during the years 1941 and 1942?

A. Only in small quantities. Some of them were what they called X.B. models, experimental models.

Q. Reference has been made to instruction plates on aircraft. What is that?

A. Well, an instruction plate, one example would be a plate which tells someone to do something. This is an instruction plate which says "Do not open this magazine in case of fire." They may be, they could very well be set on several parts of an airplane, on the places where a fellow must not sit, they might say "Don't sit here," or might say, "Oil here" or might give some information.

Q. What is a designation plate?

A. A designation plate would be a plate which indicated that this was a certain part or number of instrument. [84] It might be too—there is a sort of plate in general use also which tells something about what that particular button will do. It may

(Testimony of William James Kennedy.)

be, in one instance, one example is what they call the bomb jettison. Supposedly when pilots return from a flight and they have not used all the bombs, they are supposed to jettison them before they return to their base. We might make a plate that will indicate to the pilot that if he pulled that plate up and pushes that certain switch he will jettison all his bombs at one time. That would be a designation plate.

It may be like a plate that identifies the signal to the crew to abandon ship. We would make that as a cover so it would not be hit accidentally. That plate in case of accident will prevent that, and the pilot has to reach his hand underneath that, and that would be a designation plate, and designed to tell somebody about something that would not be visible from the general appearance.

Q. Was that business increased in 1941 and 1942 over prior years?

A. We had an amazing increase.

Q. Was there any change in the materials used?

A. Sure. We switched from mostly brass to mostly aluminum and dural and all types of metals.

Q. Did that make a change necessary in your manufacturing processes? [85]

A. Yes, it practically deviated us from where we had been into an entirely new field.

Q. Now, did you manufacture luminous, fluorescent and phosphorescent nameplates?

A. We do.

Q. When did you begin such manufacture?

(Testimony of William James Kennedy.)

A. Well, originally we brought the material out about 1931 or 1932, but that actually was mostly experimental in those days. We made the products up to be introduced, but very little interest at that time. The main interest in these luminous or what we call fluorescent lights became evident when some pilots were allergic to radium.

Q. When did you begin to make those plates in any quantity, that is, any appreciable quantity?

A. About 1941.

Q. For what purpose were they made, in general?

A. So a pilot could read a plate at night without having illumination.

Q. Now, in making those items, tell us what materials you used?

A. We used some radium, some radium activity of our own that went on dials in places where they were not permanently lighted. Then we had and used a phosphorescent of our own requiring black light for activation. We also used a phosphorescent material that would just soak in light [86] and give off light for about eight hours after the light was turned off.

Q. Was any extensive experiments required in the perfecting of that?

A. Yes, we perfected this type and we introduced it ourselves personally without any response until they found some pilots who were allergic to the test amounts of radium, and began to put it in most of the planes.

(Testimony of William James Kennedy.)

Q. How did you introduce this in the markets?

A. I took a black light and a number of nameplates we had made up experimentally and I visited the airplane companies personally and turned the black light on and then showed them how they acted.

Q. What time was that?

A. Say 1939, 1940 and the early part of 1941.

Q. When did you begin to get orders as a result of those visits?

A. The first ones they had CVA Field down at San Diego, Consolidated Vultee Aircraft, we commenced to get orders for small numbers of them, and finally the government commenced to specify large numbers of those.

Q. Did you have any problems in your plant with regard to manufacture of those?

A. Yes, we did. Handling it in quantity, some of the materials were very offensive to people working with them, [87] they would cause sickness or cause discomfort. We had to devise various ways of working with the material. We had to find means of doing that work under lead or under glass so the employees would not touch or handle the material in any way that they would get their hands on it, and even so the odor got very confusing.

Q. Now, generally speaking, was there any change in the matter of accuracy required or care in manufacture in 1941 and 1942 over prior years?

A. Oh, yes. The average commercial product, if it was visually correct, that was satisfactory, if it

(Testimony of William James Kennedy.)

looked all right it was acceptable, the average commercial product.

Q. Were your sales prior to 1941 mostly commercial products?

A. I would say before 1941 85 to 90 per cent of the customers were commercial firms, and when I say commercial firms I mean various firms that happened merely to need the job.

Q. Were those jobs, did they have any inspectors?

A. A number of firms had receiving departments, but they did not have inspection of the type that existed during the war.

Q. In 1941 and 1942, when you were doing the government work, was there any difference in execution?

A. Yes, the requirements became stricter on that.

Q. Was it any more difficult to make the products that you manufactured in 1941 and 1942 than those that you had produced previously?

A. Absolutely.

Q. And you had to devise these various processes of manufacture of these?

A. I had to confer sometimes on it myself, mostly Mr. Hayek was handling it, but sometimes he wanted me, too. Both of us simultaneously. We discussed these various matters and after we figured out some way of working it we would have the job of figuring out how to do it.

Q. In connection with the use of radium, were there any special problems?



(Testimony of William James Kennedy.)

A. The use of radium brought in the problem, of course, of the human relationship to radium, which is not very good. It also required that you set up in connection with that department numerous restrictions which are rather rigorous, must be kept under lead, all the supplies must be kept under lead, in order to prevent harmful radiations from attacking any human being. [89]

Q. Did the Kennedy Nameplate Company have a system of bonuses for its employees?

A. It had.

Q. When did you first start paying bonuses to your employees? A. About 1931.

Q. What did they consist of, these bonuses?

A. Originally they consisted of \$5.00 for the men in the minor employees, and \$10.00 for those men who had a little bit more authority. That was a monthly business.

Q. Then it was a one to four weeks pay bonus later on? A. That is correct.

Q. You paid that during 1921 and 1922?

A. That is correct.

Q. And you paid those bonuses during 1941 and 1942 to [90] your regular employees? A. Yes.

Q. I show you the Petitioner's Exhibit No. 7, being the minutes of the meeting of April 30, 1940, which you already testified were the full minutes of the directors for that date. Were the salaries of yourself and Mr. Hayek fixed at that meeting?

A. They were.

(Testimony of William James Kennedy.)

Q. And what amount was fixed as being your salary?      A. \$12,000.00 per year.

Q. When did that start?

A. Retroactive to July 1, 1939.

Q. Then I will show you the minutes of the Board of Directors of June 11, 1941, Petitioner's Exhibit No. 8. Was any action taken with regard to your compensation at that meeting?

A. It was.

Q. A bonus of \$5,000.00 was voted to yourself, also a similar bonus to Mr. Joseph Hayek?

A. It was.

Q. Now, \$12,000.00 plus \$5,000.00 makes a total of \$17,000.00 compensation for the year ended June 30, 1942, did it not?      A. It does.

Q. Did you receive that amount in cash, that \$17,000.00 [91]      A. I did.

Q. Did Mr. Hayek, if you know, receive a similar amount of \$17,000.00 in cash, in the year ended June 30, 1941?      A. He did.

Q. What was your compensation for the next year, the year ended June 30, 1942?

A. As far as I recall, it was the same.

Q. Well, referring to the exhibit of Petitioner, the Exhibit No. 2, you note the figure for the year ended June 30, 1942, \$34,000.00. To the best of your knowledge is that correct?

A. It is correct.

Q. Would that be \$17,000.00 for each officer for the year ended June 30, 1942?

A. That would be.

(Testimony of William James Kennedy.)

Q. Now looking at Exhibit 2, you will note total compensation to yourself and Mr. Hayek, which you have already testified was \$50,506.00 for the year 1936 and \$65,426.00, being \$3,200.00 apiece for 1937, being \$7,500.00 each for 1938, and in 1940 a little over \$24,000.00, being a little more than \$12,000.00 each, is that, to the best of your knowledge, what you actually received in those years?

A. That is.

Q. Now how long have you known Mr. Joseph Hayek?      A. A little over 25 years. [92]

Q. You first met him, I believe, you testified, in Minneapolis.      A. Minneapolis.

Q. When he was president and principal stockholder of the Hayek Nameplate Company.

A. That is correct.

Q. Have you been continuously associated with him since in the nameplate business?

A. I have been.

Q. And his position, I believe you testified, was president, director, and in full charge of production?      A. Correct.

Q. During these years have you had an opportunity to observe the capabilities of Mr. Hayek, and form an opinion as to his value to the company?

A. I certainly have.

Q. Does Mr. Hayek devote his entire time to the company, during the period from 1923 to the present time?      A. He did.

Q. To your knowledge, did he have any outside business activities?      A. Nothing.

(Testimony of William James Kennedy.)

Q. In your opinion, did Mr. Hayek receive adequate compensation for his time and services with the company during the years 1936 to 1940, that is the 15 years immediately [93] preceding the two years in issue?

A. No, he didn't, because in those days Mr. Hayek and I were in partnership, and he was paid inadequately for the work he did, because that was the way it had to be.

Q. During those years I just mentioned, 1936 to 1940?

A. No, we were like everybody else, just doing our level best to keep enough working capital to keep going, not to pay more than what we thought we were worth.

Q. In spite of the fact that you kept those salaries low, the exhibit shows you had to loan money to the company, does it not, as you previously testified?

A. Yes, sir, we did.

Q. Pardon me, Mr. Memory previously so testified.

Q. In fixing the compensation of Mr. Hayek and yourself at \$17,000.00, during the years 1941 and 1942, did you as a director and the other directors, consider the amount of compensation that you received in prior years, in fixing that amount?

A. To some extent, yes, we did.

Q. Then that was inadequate compensation you testified to in prior years.

Mr. Tonjes: Don't lead the witness.

(Testimony of William James Kennedy.)

The Court: Yes, be careful about leading the witness.

Mr. Orem: Well, never mind, strike that. [94]

Q. (By Mr. Orem): In your opinion, based upon your long business experience with Mr. Hayek and his services to the company rendered during the years ended June 30, 1941, what would you consider the reasonable value of his full time services to the company to be worth that year?

A. That would be rather difficult to answer. It is hard to say, because the company could not have existed without his attention to the factory. We could hardly pay him for what he did, I don't believe.

Q. Well, if it was a question of bargaining, in other words, if you had bargained with him as to what you were going to pay for his services during that year, what do you think would have been reasonable?

A. Well, men of his ability were very scarce, and it would be hard to say what you could have done during that time. You would have made the best deal that you could, and he very fortunately, though, was working with us, so that that was not in question. I don't believe you could have gotten a man of his ability during that period.

Q. During what period was this?

A. You mentioned 1941.

Q. Oh, yes, about the year ending June 30, 1941, is what I am asking about right now, June 30, 1941.

(Testimony of William James Kennedy.)

A. That is correct. I don't believe you could have [95] gotten men at that time.

Q. You mean at any price?

A. Yes, the etching business is rather an unusual occupation. There aren't very many people in the country that are skilled practitioners of the work.

Q. Just what were the capabilities of Mr. Hayek?

A. Well, he understands etching and plating and lithography, and tool and die making, machinery work, and mixing solutions, paints, colors, all of the special problems of metal finishing. In other words, he understands the nameplate business in all of the different departments connected with it, including working with decalcomanias and plastics and various things.

Q. During the years 1941 and 1942, were persons with those abilities available?

A. I never got one. I never had anybody so far that knew much about it.

Q. Well, assuming that you didn't have Mr. Hayek in the business, in the year ended June 30, 1941, and you would have to engage someone to take his place, what is your opinion as to what you would pay?

A. Well, in that case I would have had to try to find someone who was available and capable, and whatever he required, that I probably would have had to pay him.



(Testimony of William James Kennedy.)

Q. Well, you think you would pay \$5,000.00, or \$10,000.00, [96] or \$20,000.00?

A. I believe so. I understand that by his experience with etching, he is cheap at \$12,000.00 a year just for that one department alone.

Q. Now, taking for the year ended June 30, 1942, as compared with June 30, 1941, were the services of Mr. Hayek during that latter year worth more or less? A. They were worth more.

Q. For what reason?

A. Well, we were still completing a lot of commercial business, and going right into war business, and he was doing twice as much work a part of that time.

Q. Did you prepare a memorandum of the average number of employees of the Kennedy Nameplate Company in various years? A. I did.

Q. I show you a statement here, showing years as well as the number of employees, and ask you if you prepared or caused to be prepared that statement.

A. I did. This is my writing on the bottom.

Q. Does that show the number of employees of the Kennedy Nameplate Company as follows: Year ended June 30, 1937, 39; Year ended June 30, 1938, 36; Year ended June 30, 1939, 37; Year ended June 30, 1940, 53; Year ended June 30, 1941, 73; Year ended June 30, 1942, 90 employees.

A. It does. [97]

Q. Does that represent the average number of employees? A. It does.

(Testimony of William James Kennedy.)

Q. And this down below is just some—

A. That shows that maybe we would have 10 or 15 more than the average, and sometimes we would run short, maybe one or two less.

Mr. Orem: This is offered as Petitioner's Exhibit.

Mr. Tonjes: There is no objection.

The Court: It will be received as Petitioner's Exhibit No. 10.

(The statement referred to was marked and received in evidence as Petitioner's Exhibit No. 10.)

Q. (By Mr. Orem): Now with respect to the nameplate business, a business of that general type, was there very many companies in Los Angeles of that type? A. Not at that time.

Q. During 1941 and 1942?

A. There were just two, perhaps three, firms that made nameplates, and those firms were so very small, just getting started. I think there was one that had been an outgrowth of the plant started at Lockheed that had separated on or about that period. We unquestionably represented 75% of the business, I believe, during this period.

Q. What was the name of this firm that had some of the [98] other business created by Lockheed?

A. That was the Miller Dial & Nameplate Company on Santa Monica Blvd., and there was a small plant, the K. B. Nameplate Company, and there were one or two small firms in the downtown area.

(Testimony of William James Kennedy.)

Q. Now as the nameplate business stood at that time, during 1941 and 1942, if you had had to—say that your position or Mr. Hayek's, either one, had become vacant, what would those positions have been worth?

A. I don't believe that they could have been filled.

Q. You could have hired an executive from some other business, some business like plating or something like that, and readily teach him the nameplate business?

A. Well, a plater would probably be the best, but you wouldn't have anybody you could really take in unless you had trained him.

Q. Why would that be?

A. That plater also works with metals, using dangerous chemicals. A plater, I believe would learn how to handle that work, in terms of handling work with liquids and corrosives, and types of acids and solutions.

Q. Would a plater be familiar with all these other processes?

A. He would have that much learned, as I say, but he would not know anything about lithographing or camera work, or [99] anything in that department.

Q. Would he be capable of working and learning and taking over the management of that one department?

A. Yes, you might train him and break him in, sure, but there would have to be some limit.

(Testimony of William James Kennedy.)

Q. If you had had a vacancy such as I have just described, what would you have done about filling it?

A. Well, I don't know. I just used to wonder what I would do myself.

Q. Now the Kennedy Nameplate Company accumulates scrap from time to time, does it not?

A. They do.

Q. Will you describe just how you handled the sale of that scrap in 1941 and 1942?

A. The scrap which they accumulate is usually what we know as overs on jobs. In order to create enough good nameplates to deliver to the customers, the job is run more than the requirements, just for safety, and we know that as overs, and there will be slugs where there is bad cutting, something wrong about the cutting, or say a dial is hand marked and it is scratched, those are not used, and then we have problems from time to time with discolored nameplates, and all those that we cannot use are scrapped.

Q. What disposition do you make of those? Are they sold as scrap? [100]

A. Presently we handle that by the customary process of selling it, and the income goes to Mr. Hayek and myself on an equal basis.

Q. In other words, one-half to each?

A. That is correct.

Q. Was that treated as income of the corporation?

A. Never.

(Testimony of William James Kennedy.)

Q. Just what did you have in mind in distributing those proceeds to yourselves?

A. Well, it seems to be the practice within the name plate business, that it was kind of a bonus. That was a practice that was inherited by the Kennedy Nameplate Company. I didn't have anything to do with setting up the procedure in the first place.

Q. Of course that scrap was accumulated by the corporation, and the proceeds that were being distributed to these various individuals, had been shown on your income tax returns, yourselves and your wives?

A. That is right.

Q. Do you know how it was shown on your return?

A. I believe it was entered as part of my gross income, but I'm not sure.

Q. Will you take one of these returns, for the year ended June 30, 1941, being Respondent's Exhibit A, and note there in line 11 the sale of scrap metal,  $\frac{1}{4}$ , \$468.29. [101] That was  $\frac{1}{2}$  of the half that you received, is it not?

A. That is correct.

Q. And the other half would be shown on your wife's return?

A. That is correct.

Q. And I show you Mr. Hayek's return for the same year, Respondent's Exhibit B, showing scrap metal,  $\frac{1}{4}$ , \$468.29, which represented the return by Mr. Hayek for the sale of scrap on his return?

A. That is correct.

(Testimony of William James Kennedy.)

Q. And the same procedure was followed for the year 1942, was it not? A. That is correct.

Q. Just what did you consider that? Of course it was an amount that came from the corporation, but would you consider that—well, it would have to be either compensation or dividends, just what would you consider it?

A. Well, I returned it as miscellaneous income.

Q. How did you regard it? Just what did you consider it, was it compensation or dividend?

A. I regarded it as a sort of a bonus to him and for myself.

Q. Now, these amounts that you received as compensation, bonus, etc., during the years June 30, 1941, and June 30, 1942, in your opinion was that reasonable compensation for the [102] services you rendered to the company?

A. Well, of course that is always a matter of opinion, but I don't believe I was ever overpaid by the Kennedy Nameplate Company.

Mr. Orem: That is all.

#### Cross-Examination

By Mr. Tonjes:

Q. Mr. Kennedy, I believe you stated that some corporations paid etchers as high as \$12,000.00 a year.

A. I didn't say they paid them that. I said I had been informed that they did. I don't know that to my own knowledge.

Q. I was going to ask you if you knew of any organization that paid an etcher that much, and



(Testimony of William James Kennedy.)

whether or not it compared with your organization in size.

A. Well, the amount of etching that is done by any individual etcher would be—a firm might have two or three etchers, and there might be two or three managers in charge of the firm—I remember that one firm in California, they had an etcher who necessarily had to be capable in the production field, and they paid their etcher \$35,000.00 a year.

Q. Do you know what their gross sales were?

A. Their gross sales of nameplates I couldn't say, but I know at one time their gross sales were about \$80,000.00 a month, what they have been selling recently I don't know, because I think they are getting out of the nameplate business [103] now, and so their sales are mixed up with their other items.

Q. I believe you also stated that in the event that you had to replace Mr. Hayek, you would have great difficulty in finding a man who would have his qualifications.

A. I am quite sure I would.

Q. I believe you were a little concerned, and said you could not find one.

A. I did not go so far as to say I could not find one. I don't know where we would find such a man.

Q. Did you ever make any effort to find a man like that?

A. Yes. It is not ethical to try to take your competitor's man, but I have had letters from various men working at other plants, which always stated their qualifications, which they submitted,

(Testimony of William James Kennedy.)

and no one ever applied for work with us there that knew any more than one single phase of the name-plates he had specialized in, with very full knowledge anyway, that knew how to coordinate these departments.

Q. What was the necessity for their making application to you?

A. Well, at times during the depression, there were many people coming back to California, and we even got some along the coast who wrote down, trying to secure work.

Q. I believe you also stated you had a system of paying a bonus to your employees.

A. Yes, sir, that is correct. [104]

Q. And that has been in effect for quite a few years?      A. That is correct.

Q. Do you have any idea what the total bonuses paid your employees were, during the fiscal years ended June 30, 1941 and June 30, 1942?

A. No, I couldn't give you the figures, offhand. You know there was a period there where such figures again became available, but I don't recall them offhand. At a subsequent period the boys secured the bonus again, so I say that such a bonus is paid regularly, to everybody there, and we still continued to pay the bonus for salesmen, when we didn't pay it in the factory, because we knew we had had a problem on all of that payment.

Q. How many employees did you pay this bonus to?

A. Every employee who got a bonus, that was

(Testimony of William James Kennedy.)

anybody working for us 30 days, I think, we paid a lump \$5.00 for everybody working for us. If a man worked for us longer than 30 days he was entitled to a bonus.

Q. The thing I want is the total sum. What would be paid?

A. I don't know. I would say at the outside maybe \$12,000.00 or \$14,000.00 a year, maybe around there somewhere. It would vary depending on how many employees they had.

Q. Now, there was a matter on which the corporation made a report of its activities in regard to getting business, [105] we will say back in 1937 and 1938, in connection with that, did you have a sales department? A. Yes, we had.

Q. Did you have that same sales department in 1941?

A. In 1941 we started, about, I imagine, about the end of 1941 we concluded that war was inevitable, and with this additional sales organization we seemed to have a terrible number of commitments, they kept on sending us in orders.

Q. Yes, but your sales problems were more pertaining to getting orders filled, at the moment, that is, during the years 1941 and 1942?

A. Well, of course that is what it proved to be, but that was an afterthought. At all times the aircraft companies bought their merchandise on the open market. They bought it from us because we could supply their merchandise, and make it according to their specifications.

(Testimony of William James Kennedy.)

Q. Well, the point I am making is, you didn't have to maintain this same type of agency to sell your goods that you were producing during those years?

A. We didn't reduce a single bit our sales department. Our men were simply used to send to various plants, and we had to keep about the same personnel.

Q. I take it that during the years 1941 and 1942, the greater volume of your business then was in connection with [106] the war activity?

A. There was a deviation there, yes; the commercial business was becoming less and the military business was increasing, and at the end of 1942 they had practically eliminated the commercial producer, making goods for the commercial producer.

Q. Is it true or not that the same amount of production, or the same amount of business volume, would have resulted in considerably greater dollar volume of sales?

A. I don't think I know just what that means. What do you mean by that?

Q. I mean were prices of articles sold by you generally higher in 1941 and 1942?

A. No, we used the same prices.

Q. Higher in 1941 and 1942 than they were back in 1937 and 1938?

A. We used the same prices.

Q. During the year 1940, according to the exhibit offered in evidence, you had approximately 53

(Testimony of William James Kennedy.)

employees. Do you know of any other organization in the nameplate business in the west at that time, on the west coast preferably, but anywhere in the west, that employed approximately that number of persons?

A. No, I don't. I don't know. There are unquestionably some companies, but I don't know, I don't know how they [107] compare in size to ours. I know there are some larger, and unquestionably some smaller, but I don't know how many employees they had. [108].

Q. Now, getting back to your compensation for the years 1941 and 1942, ending June 30th, prior to this I believe you testified that some portion of the \$34,000.00, several thousand dollars of it for Mr. Hayek particularly, was for services which were rendered in prior years. I believe you testified to that.

A. I think there was a misunderstanding as to how much [109] that was. I testified we were paying him back for the years he hadn't received it. It was not intended in that way, but it was being paid to him for work that he had done before, but the condition that induced the company to pay at this time was doubtless due to the fact that the company had paid such extremely small salaries during the period of development and he had worked at that time for so little. I was working for as low as \$50.00 a week at one time in the depression myself.

Q. I notice that the salary paid in 1940 totals



(Testimony of William James Kennedy.)

somewhat in excess of \$24,000.00. I presume that was at the rate of \$12,000.00.

A. That was approximately \$12,000.00 apiece.

Q. For 1940 there were 53 employees and net sales of \$51,000.00. Do you know any organizations, any companies in the nameplate business that had approximately that number of employees and that volume of business, who paid more than \$24,000.00 to the officers?

A. I don't know what any of them were paying, and I never made any effort to try to find out.

Q. Your sales were less for 1938 and 1939 and the salaries paid in those years were practically \$37,000.00 and \$15,000.00 or thereabouts. Do you know of any organizations that had approximately these sales who paid their officers the same salaries?

A. Well, let me see. I couldn't tell you what anybody [110] pays, based upon what their sales are. In the nameplate industry you pay a certain amount for so-called wisdom and experience, and in figuring the salaries of individuals on the basis of being an expense, if you will check your records you will find that it moved up from 98 to 109, from 109 to 151 thousand dollars which appeared to be quite an increase in proportion to the volume increase, but your cost, you have to carry over most of your basic costs, you will find a much higher ratio of profit with war work.

Q. I think that is true in all industries. Do you own any other stocks or securities, Mr. Kennedy?

A. You mean do I personally own?



(Testimony of William James Kennedy.)

Q. Yes.           A. Yes, I do.

Q. What factors do you take into consideration when you buy stocks or securities?

A. Well, first I look back to see how many years they had paid dividends, how many years they have skipped dividends, what they are paying according to what they are earning, and what kind of business they are in.

Q. Now, looking at the investment in the Kennedy Nameplate Company as an investment, and also taking in consideration the fact that corporation paid dividends in 1936, '37 and '38 and has not paid any dividends since that time, would you say from an investor's point of view that was [111] a good investment?

A. In the first place there was no investment point of view involved, because the stock was not for sale if anybody would buy. It became increasingly apparent to me that we needed a bigger plant, and we started putting the dividends back to accumulate to buy a bigger plant. Likewise, we considered we needed new equipment, so that the last dividend paid in 1938 represents the expansion of this company and the procuring of the building on this property on Boyle Avenue, we started to get money together from this point and put it back into the corporation to put the corporation in a position to expand and get bigger and to keep on growing.

Q. Well, can you also, based on the salaries paid to the two officers——

(Testimony of William James Kennedy.)

A. I believe that is a matter of record in the exhibits.

Q. Yes. How do you reconcile the increase in officers' salaries by \$10,000.00 a year over a period of several years with the fact that the corporation was so anxious to retain its funds that it could not pay any money out as dividends?

A. Well, in the first place, while those two things may seem to be tied in, human beings remain human beings. It is necessary to encourage and promote business by adequate compensation. You can understand that the officers of a corporation are entitled to recognition for their efforts as well as their employees. The money could be paid and still some [112] additions made to the surplus funds for promotion, because there was a substantial profit being earned, and it would not necessarily have cost—at this time the program being initiated looked to a very bright and brilliant future, so the two things, while they might seem to have been different, they were not. They were simply going to make an effort to have an adequate plant and employ a lot of people and to buy a lot of new equipment, and we had to have officers who were satisfied with what they were obtaining, because they could have gotten more elsewhere.

Q. Yes, but don't you think that capital is entitled to some compensation for the use of its money?

A. The capital was here. You will find that there was substantially all of our working capital

(Testimony of William James Kennedy.)

tied up at this period. It was not depriving the capital of its premium, because they were just simply building it up at that particular period. There were definite plans made in those periods to get some more property, because we were unable to stay on the property we had. I drove over the entire area and I investigated many piece of property in that district before I found the one that we ultimately bought, which was on Boyle Avenue.

Q. And that is still in the same condition as when you acquired it, is that true?

A. How do you mean in the same condition?

Q. There hasn't been any substantial development of it, I mean.

A. Well, I don't suppose that it has decreased any in its valuation.

Q. I believe you also testified that you supervised the keeping of the accounts.

A. Well, I have an accountant working for me, and I received a financial statement every 30 days showing the profit and loss and the purchases, and I don't personally do any thing on the ledgers to get a list of all the accounts that are not paying, but I get that every 30 days and go over all of the accounts.

Q. You have a regular accountant that takes care, you say——

A. Mr. Memory does not have anything to do with our books, but he checks up the books, and he makes a report to me and reports on how the books are being kept, and any recommendations

(Testimony of William James Kennedy.)

that he makes are certainly put into effect. Incidentally, I was an accountant myself. I never worked at it, but I understand accounting to that extent.

Mr. Tonjes: I think that is all the questions I have of Mr. Kennedy.

### Redirect Examination

By Mr. Orem:

Q. Did you have any offers on or about the year 1941 or [114] 1942 or later for the sale of the company, the Kennedy Nameplate Company?

A. Yes, I did.

Q. Who made this offer?

A. It was made by the Northern Engraving Company of Racine, Wisconsin.

Q. And when they made this offer, did they offer anything to yourself and Mr. Hayek to stay on as employees? A. Yes.

Q. Pardon me. What was the date of this?

A. The spring of 1943, I think, February or March. I am not sure.

Q. In connection with that offer, did they attempt to make any arrangement to keep you on as an employee?

A. Well, I can reply to that——

The Court: Not in too many words since the question is a direct one that is being asked by Mr. Orem.

Q. (By Mr. Orem): Give the details of the offer.

(Testimony of William James Kennedy.)

A. They called me on the long distance telephone, called me and asked if the company was for sale. After I discovered who was talking, I said, "Let me read you the balance sheet, and if you are talking that kind of money then we will talk turkey." So I read the balance sheet off over the long distance wire to this man. He said, well, he [115] will discuss it with his associate and he will let me know. I put the matter away in the back of my mind, because those things have a way of disappearing. About two weeks afterwards a call came through over the long distance telephone and said they had given the matter very thorough consideration and they would talk business that would apply to the costs stated on the balance sheet.

They came out here and I happened to be at home. I was ill at the time, so they came to my house and they sat around discussing various things, and the offer was to buy a 51 per cent control of the company, and engage me and Mr. Hayek for two years, and they mentioned the sum that they were ready to pay. They were going to buy 51 per cent of the stock and to keep me running it. They did not deal with Mr. Hayek, because I wouldn't commit myself to taking that amount for the business. So that is the way we broke down, because in the first place they were not offering enough money for 51 per cent interest, and again I was not going to work myself out of the business.

According to the plan and policy they contemplated they were going to send their operators here



(Testimony of William James Kennedy.)

and at the end of the two years they would be the true stockholders of the company.

Q. What compensation were you to get?

A. I told them what I was earning, that I was getting \$10,000.00 plus a bonus. [116]

Q. Do you recollect what that amounted to?

A. I told them I was earning \$17,000.00 a year.

Q. Did you tell them what Mr. Hayek was earning? A. The same. [117]

Q. Now, one of your customers, I believe, was Consolidated Aircraft.

A. Consolidated Vultee.

Q. Consolidated Vultee, pardon me. They were large customers of yours, were they not?

A. They were quite large customers during the war.

Q. Did you make any deliveries of your products to their plants besides the one in San Diego?

A. Oh, yes, wherever they had a plant.

Q. How was that particular customer obtained?

A. Well, I guess that I obtained it.

Q. What was their procedure in—first, state just what you did furnish them for use in their plants.

A. We sold them plates in quite large numbers of various kinds.

Q. Well, there is an arming chart on that list. Did you make similar charts to that?

A. I did, yes, dozens of different ones.

Q. Did you make any money out of that business?

A. In all of our aircraft jobs we did pretty



(Testimony of William James Kennedy.)

good. The work was very highly specialized, and they didn't say what the use of the plate was going to be. They would place the order and he would make delivery of it. As soon as they told me what was necessary and the number they needed, they got the plates.

Q. Well, those charts that you made for Consolidated and some of these other things, just what type of skill was required in respect to your employees, just what type of skill?

A. Well, that bombing chart, you see, that is a machine that was worth \$15.00 apiece, and that is about the same as a slide rule, where the slide operates in that position, and it has to be correctly made.

Q. With reference to the bombing chart, how many processes did you have to go through and what would be included in those processes? [119]

A. Consolidated Vultee Aircraft Company made the original office blue prints. They always had the Consolidated man make the drawing and called us in later. I visited the Consolidated engineering department and we discussed the possibility of making it up as a painted product. Well, I said it looks like the kind of a job which would cost a lot of money. I am willing to take that along and see what it costs and we will take a shot at it.

I brought it back to Los Angeles to the plant and we talked it over in consultation with Mr. Hayek, and we looked it over and then we decided that we

(Testimony of William James Kennedy.)

could reduce it in cost by making it out of laminated plastic. It is a very complex job.

Q. What were the employees that actually worked on it?

A. Well, our artist made the drawing for the chart, and he was responsible for the accuracy of the drawing, and the photo-engraver then had the job of making each one the right size.

Q. Were those unskilled employees?

A. Oh, no.

Q. Or are they semi-skilled?

A. They are skilled.

Q. Do you have any common labor at all in your plant?

A. Well, you can't hire anybody that comes into a nameplate company and expect him to start doing the work [120] properly. They are usually a kind of a tool maker or an artist, he knows something about his job before he comes in there.

Q. In other words, all your men are skilled in various parts of the work in your plant?

A. Yes, they have to be able to handle some details of it, at least.

Mr. Orem: That is all.

Mr. Tonjes: No further questions.

The Court: We will recess for ten minutes.

(A short recess was taken.)

Mr. Orem: Mr. Miller, will you take the stand, please?

Whereupon,

CHARLES W. MILLER

called as a witness for and on behalf of the Petitioner, having been first duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Orem:

Q. Will you state your full name?

A. Charles W. Miller.

Q. What is your present business or occupation?

A. I am president of the Miller Dial and Nameplate Corporation.

Q. Do you devote all of your time to that business? [121]

A. Yes, I do.

Q. Is that a corporation? A. Yes, it is.

Q. When was it incorporated?

A. It was incorporated on the 1st of January of this year.

Q. Where is that located?

A. 781 East Washington Boulevard.

Q. Los Angeles? A. Los Angeles.

Q. Now, prior to the incorporation, what was your business connection?

A. It was a partnership.

Q. Under the same name?

A. Yes, the same name, Miller Dial and Nameplate Company.

Q. That corporation acquired the prior partnership business? A. Yes, it did.

Q. How long were you a partner in the Miller Dial and Nameplate Company?

(Testimony of Charles W. Miller.)

A. I was a partner in the Miller Dial and Nameplate Company since 1939 to, let's see, the partnership started in 1939 and lasted through until the first of this year.

Q. Did you have prior experience prior to 1939 in the nameplate business? [122]

A. Yes, I have had experience in the nameplate and dial business since 1930.

Q. Was that in an executive or administrative capacity, that is, management?

A. All except the first two years.

Q. Now, in business in the partnership form in Los Angeles during the years 1941 and 1942, during the years ended June 30, 1941, and June 30, 1942, who was your principal competitor in Los Angeles particularly in the type of business in which you were engaged?

A. Kennedy Nameplate Company.

Q. And are you acquainted with Mr. Kennedy and Mr. Hayek? A. Yes, I have met them.

Q. Do you have any personal knowledge of their reputation in the nameplate business?

A. They are generally acknowledged to be one of the finest houses on the coast.

Q. Do you have any personal knowledge of the individuals with respect to the business, do you know what Mr. Hayek's capacity is?

A. Yes, I understand that Mr. Hayek is the president of the corporation, that he runs the shop. Mr. Kennedy runs the office, very similar to my position.

(Testimony of Charles W. Miller.)

Q. Now, how would your duties in your business compare [123] with those of Mr. Kennedy in his?

A. Mr. Kennedy's and my duties would be exactly the same. I take care of all the sales and the business administration of the company, the same as I understand Mr. Kennedy does.

Q. How would Mr. Hayek's duties compare with those of any individual in your firm?

A. They would be exactly the same as my brother. He takes care of all production or production problems, handles the whole factory.

Q. What is his name?

A. John Dawson Miller.

Q. Was he a partner in your partnership business?      A. Yes, he was my partner.

Q. And he is an officer of the present corporation?

A. He is the vice-president of the present corporation.

Q. Now, assuming the following facts to be true: That Mr. Joseph W. Hayek had 34 years of management experience in the nameplate business, that he was president of the Kennedy Nameplate Company during the year ending June 30, 1941, in full charge of all production and technical activities, that he engaged in no outside business and worked from 12 to 14 hours per day for five days a week and about half that on Saturday of each week; that the net sales for the company for the year were \$256,000.00; that the average number of employees was 73; that the income after all expenses [124] other

(Testimony of Charles W. Miller.)

than Federal Income Tax was \$46,942.00; that the invested capital of the company was \$67,000.00 at the beginning of the year; what would you consider that the services of Mr. Hayek with Kennedy Nameplate Company in the year ended June 30, 1941, were reasonably worth?

Mr. Tonjes: I object to the question, your Honor, on the ground that this witness has not been qualified to express an opinion as to the fair value of the services of Mr. Hayek, for the reason that it has not been shown that he was engaged in the business in 1941 in corporate form, and has not been shown to have any personal knowledge of what other organizations of a similar nature paid, or has not been in any way qualified.

Mr. Orem: May I ask a few further qualifying questions? I will withdraw that question for the present.

The Court: You may, yes.

Q. (By Mr. Orem): During those years, Mr. Miller, 1941 and 1942, at any time did you contemplate having to engage somebody to take over your position?

A. Yes, I was trying to get someone to take my place so I could go into the Air Corps.

Q. About what time was that?

A. Well, let's see, that was in 1942.

Q. Now, was your volume of sales in 1941 and 1942 fairly [125] comparable to those of the Kennedy Nameplate Company?



(Testimony of Charles W. Miller.)

A. I didn't hear you mention the amount for 1942. 1941 was comparable.

Q. Well, would sales of 1942 of \$370,000.00 be fairly comparable to the sales of your organization?

A. It would be close to it, yes.

Q. With respect to engaging this individual to take your place, did you actually engage him?

A. Yes, I hired him on a six months' trial to try and take my place, and he worked for us for six months and couldn't do it, so I couldn't get away.

Q. Was he the best qualified individual you could find on the market in 1942 to take your place?

A. Yes, he was. He was the west coast sales manager for the Wayne Pump Company. He was very well qualified as a sales manager, but had no knowledge at all of the nameplate business.

Q. What salary did you have to pay him?

A. \$600.00 a month.

Q. And you found he was not qualified to take your position?

A. That is correct. I paid his expenses and mine, but I never did get away.

Mr. Orem: I now offer that question Mr. Tonjes was objecting to. [126]

Mr. Tonjes: I renew my objection.

The Court: I think I will have to sustain the objection. If this witness had been in a comparable business during those years, but I understand it was a partnership, and they probably didn't pay any salaries.

(Testimony of Charles W. Miller.)

Mr. Orem: I am in a position to show just what salaries were paid to Mr. Miller by the partnership.

The Court: Well I think that would be relevant evidence for that. The two businesses, as I understand, are comparable in at least the nature of their business. How did they compare in point of sales, volume of business?

Mr. Orem: Well, Mr. Miller has stated that they are fairly comparable. I might ask him to tell me just exactly what their sales were, but I didn't want to pry into his business if I could help it.

The Court: Of course, your salaries are in evidence, admitted as to what salaries might be paid for their experience. There ought to be some showing that their volume of business was comparable in amount before it would be worth much in the way of testimony, I think, but that being shown, then I think it would be relevant to show what salaries were paid to Mr. Miller, who had, as I understand it, duties corresponding to those of Mr. Kennedy.

Q. (By Mr. Orem): I want to ask you, Mr. Miller, just what were your [127] sales for the fiscal year ended June 30, 1941.

A. I don't remember exactly.

Q. Can you approximate the amount? I believe you are on a calendar year basis, are you, that is, your books are on a calendar year basis?

A. Yes, they are.

(Testimony of Charles W. Miller.)

The Court: I think that wouldn't make any difference.

Mr. Orem: Yes, but it might cause him a little trouble to estimate it.

The Witness: Rather than guess at it, if I can use the telephone a few minutes I will find out exactly. I don't like to guess at it, because I just don't remember.

The Court: Well, he has a right to do that if he can, because I think in order to testify as to what salaries were paid in his business, there would have to be some showing as to the volume of business that was transacted. As I understand it, the witness has testified that the nature of that business was comparable, is that true?

The Witness: That is correct. It is identically the same.

The Court: All right, we will recess for five minutes to let him get that.

(A short recess was taken.)

Q. (By Mr. Orem): I will ask you, Mr. Miller, what were the total [128] sales of your company for the calendar year 1941?

A. Approximately \$156,000.00.

Q. And what were your sales for the calendar year 1942? A. Approximately \$338,000.00.

Mr. Orem: I now offer the question that I previously asked, the hypothetical question, once more.

Mr. Tonjes: I object to the question, your Honor. This witness has testified what he would have had to pay to an individual to come in and per-

(Testimony of Charles W. Miller.)

form the duties which, in his estimation, were comparable to those performed by Mr. Hayek, I submit that he is not qualified to testify as an expert.

The Court: Well, he is not asking the question, as I understand now, as to how much was paid the witness by his own concern as a salary, is that so?

Mr. Orem: No, I didn't. I can ask that question, however. The reason I didn't ask that question was that from a tax standpoint the entire profits of the partnership are taxable.

The Court: That is very true. However, I think if they had an arrangement to pay their two men that were comparable to Mr. Kennedy and Mr. Hayek, I think maybe he might testify as to what salaries had been agreed upon. So far as qualifying this witness as an expert for salaries paid [129] in the industry, I don't think he could do that. I don't believe that he would be qualified as an expert in that line.

Mr. Orem: Of course, there are only two firms in that line in Los Angeles.

The Court: Yes. Well, you might inquire if he and his brother, who held positions similar to Mr. Kennedy and Mr. Hayek, if they had a salary arrangement, and if so, what salaries were paid to each by the partnership. I think that might be admissible.

Mr. Orem: Very well.

Q. (By Mr. Orem): For the calendar year 1941, Mr. Miller, what were the total salaries paid by your firm to the two partners?

(Testimony of Charles W. Miller.)

A. We didn't have any standard salary. We drew out, we made withdrawals as we needed it on an equal scale.

Q. Do you know approximately what they were for 1941?

The Court: Well, I don't believe that would be of any value to the Court, as to what they might have drawn, and I am not so sure that even if they had called it a salary arrangement as a partnership it would be relevant. However, it is, I think, a matter of common knowledge that sometimes in partnerships, especially if there are some inactive partners, those that are active are paid a salary as a salary, and if we had something of that kind here I think it would be admissible, and it might be of some advantage to the Court. But [130] apparently they didn't.

The Witness: In 1942 we had, your Honor. In 1942 we drew a salary.

The Court: Then you may testify as to 1942.

Q. (By Mr. Orem): Very well. What salary did you draw during the calendar year 1942?

A. I drew \$24,000.00.

Q. What did your brother, Mr. Dawson Miller, draw?

A. Dawson drew about \$18,000.00.

Q. So the total salaries of the two individuals for the year 1942 then would be \$42,000.00?

A. Yes.

Q. And your sales for the year were \$320,000.00?

A. That is right, \$338,000.00.

(Testimony of Charles W. Miller.)

Q. Are you familiar with the salaries paid to executives in the nameplate industry generally?

A. I am familiar with those paid at Northern Engraving Company at La Crosse, Wisconsin, which is a good nameplate house. They have two brothers there similar to myself and my brother, and they each draw \$25,000.00 a year.

Q. And the other firm you mentioned?

A. Well, the Northern Engraving Company and I am not familiar with those at Crowe Nameplate Company. They are the only two large nameplate companies that I am familiar with. [131]

Q. Well, there are very few nameplate companies in the country, is that true?

A. Well, comparatively to other businesses, there are few, yes.

Q. And in this vicinity, are there any other nameplate companies at all that are comparable to Kennedy?

A. Well, I would not say that there are any that are comparable. There are a few other small houses, but there is none that is comparable.

Q. There are none any larger, are there?

A. Oh, no.

Mr. Orem: I submit to the Court that with only two nameplate companies here it is impossible for—

The Court: Well, I think after all that those salaries paid by other concerns are not so very important. The witness has testified as to his salary and his brother's salary in 1942. I have received



(Testimony of Charles W. Miller.)

that testimony for what aid it may be to the Court. Of course, I think the important things you have already covered, that is, the volume of business and the profits of the business and the work that those men did, and all of that addresses itself to the Court as to whether the salaries are reasonable or not. Anything else that you may have to offer that you think would be relevant——

Mr. Orem: In other words, the Court would not feel that the answer to the hypothetical question would be of any [132] particular value, if he was allowed to state?

The Court: What his opinion is as to the reasonableness of those salaries?

Mr. Orem: Yes.

The Court: Well, I think I will admit it, notwithstanding Mr. Tonjes' objection, because of his familiarity with the business, and they are located here in the same city, as I understand it.

Mr. Orem: That is true, quite close together.

The Court: Your question now, you may examine him on that point that you started on.

Q. (By Mr. Orem): Assuming the following facts to be true, Mr. Miller, I will ask you your opinion: Assuming that Mr. Joseph W. Hayek had 34 years of management experience in the nameplate business, was president of the Kennedy Nameplate Company during the year ending June 30, 1941, in full charge of all production and technical activities; he was engaged in no outside business, he worked from 12 to 14 hours per day five days per week

(Testimony of Charles W. Miller.)

and about half that on Saturday; that the net sales of the company for the year were \$256,000.00; that the average number of employees was 73; that the net income after all expenses other than Federal Income Tax was \$46,942.00; the invested capital was \$67,000.00 at the beginning of the year; in your opinion what would you consider a reasonable [133] compensation for the services of Mr. Hayek to the Kennedy Nameplate Company for the year ended June 30, 1941? That figure of \$46,942.00 before Federal Taxes, of course, was after officers' salaries and all other expenses.

The Court: You might first ask him does he have any opinion as to what would be a reasonable salary in that connection?

Mr. Orem: Yes.

Q. (By Mr. Orem): Do you have an opinion as to what a reasonable salary would be, Mr. Miller?

A. Judging from that—

Mr. Tonjes: Answer yes or no.

The Court: First, do you have an opinion, before you can give it.

The Witness: Yes, I have an opinion.

Q. (By Mr. Orem): What is your opinion?

A. My opinion would be based judging on how much more business they did compared to what we did, what I received, I think \$20,000.00 a year would be a fair salary for the job.

Q. Do you base that opinion purely on what you yourself were receiving?

(Testimony of Charles W. Miller.)

A. On the amount of his particular company as compared to our own. [134]

Q. In forming that opinion, do you take into account your knowledge of the nameplate industry?

A. Yes, because you can't hire men to do this work. That only comes through many years of actual experience in the work itself.

Q. Then assuming the following facts to be true: That W. J. Kennedy was the secretary-treasurer of the Kennedy Nameplate Company during the year ending June 30, 1941, in full charge of the office, finances, sales, credits, advertising, all other activities other than production; he engaged in no outside business but those of management of a concern in the nameplate business and worked from eight to ten hours per day five days a week and about half that on Saturday, which is about 55 hours a week, and that the sales and other financial figures were just as previously stated in my previous question with relation to Mr. Hayek for that same period, would you have an opinion as to the reasonable value of the services of Mr. Kennedy in the Kennedy Nameplate Company for the year ending June 30, 1941? A. Yes.

Q. In your opinion what would those services be worth?

A. I believe they would be worth the same as Mr. Hayek, \$20,000 a year.

Q. On what do you base that opinion?

A. I base that opinion the same as the other, on the [135] amount of experience required in that

(Testimony of Charles W. Miller.)

job and the fact that there is no other man available for that type of work.

Q. Assuming similar facts for the year ending June 30, 1942, with respect to the hours of labor and the capacity and so forth of the individuals, but with the financial figures as follows: Sales \$364,000, average number of employees 90, the net income after all expenses including officers' salaries, excluding federal income tax was \$91,747, its invested capital was \$97,000 at the beginning of the year; do you have an opinion as to the value of the services of Mr. Hayek and Mr. Kennedy to the Kennedy Nameplate Company for the year ending June 30, 1942?

A. Yes.

Q. And in your opinion what would the services of each of those men be worth to the Kennedy Nameplate Company for that year?

A. I believe that due to the increase of business and responsibilities, that they should receive at least \$25,000 apiece.

Q. Now, assuming that the positions of either Mr. Hayek or Mr. Kennedy had become vacant due to the death of either one or any other cause during the years 1941 and 1942, can you estimate what salary the Kennedy Nameplate Company would have to pay an individual capable of filling those positions of either of those men? [136]

A. I don't know where they could find such a man.

Mr. Orem: That is all.

(Testimony of Charles W. Miller.)

Cross-Examination

By Mr. Tonjes:

Q. I believe you stated that you would pay a greater salary for the year 1942 than for the year 1941? A. Yes.

Q. Why would you do that?

A. Because of the increased volume of business, which means a large increase in the number of orders that each man had to handle and keep track of, following them up, and through my personal experience of how much pressure was put on during those war years to get out rush jobs.

Q. Do you know whether or not the average prices during 1942 were anywhere near in line with those in 1941 or were they greater?

A. The prices of nameplates, you mean?

Q. Yes.

A. I imagine the price for the individual nameplate was lower.

Q. You mean they could put out a nameplate cheaper in 1942 than they could in 1941?

A. I did myself. This was due to the use of increased facilities.

Q. And volume of production I suppose? [137]

A. Right.

Q. Do you know whether or not the major portion of the increase in business of nameplate companies generally was due to the war activity?

A. I believe it was.

Q. In other words, the increase in the volume of business which could be attributed to civilian



(Testimony of Charles W. Miller.)

consumption, I guess you could use that expression, would be very slight, probably a decline, would it not?

A. That is correct.

Q. And by and large the business handled during the years 1942 and 1941 as compared with ordinary years was sold to a fewer number of customers but in larger volume, is that true?

A. Yes, I believe that would be true.

Q. That fact would have some advantages with regard to simplification of operations, would it not?

A. Well, not entirely. They had an awful lot of small orders for individual ships that required special handling. I would say that we had more orders as well as larger volume to handle.

Q. You mean making a greater variety of products?

A. That is right.

Q. Yes, but with regard to contacts such as sales and credit considerations and things of that sort, there was some simplification in the operation?

A. There is a simplification of the credit, but not of the sales, because while they didn't have to go out and contact for sales, they had to go right in the engineering departments of the various factories and follow jobs constantly. Now quite naturally the green engineers would draw up jobs that they evidently didn't know about from experience, and we would have to go in and treat with them.

Q. What were the circumstances in connection with your own business which prompted you to change from a method of distribution of profits to a salary for yourself and your brothers? In other



(Testimony of Charles W. Miller.)

words, am I correct in understanding this, that in 1941 you and your brother had no salary arrangement, merely a drawing account arrangement, is that right?      A. That is right.

Q. And in 1942, you changed to a system where you would draw a salary, you would draw a certain salary?

A. I had some outside activities at that time and he didn't have any.

Q. I see. Was that the reason why this salary method was adopted?      A. Yes.

Q. Can you state approximately what the profits of the business were during the years 1941 and 1942?

Mr. Orem: I object to that as being irrelevant.

Mr. Tonjes: I think that is a good measuring stick, your Honor, as to the reasonableness of the salary. After all, that is about the best test there is.

The Court: You mean in his business?

Mr. Orem: You are not testing the reasonableness of Mr. Miller's salary though, are you?

The Court: Well, I suppose you would be, because you are comparing it. It was introduced for the purpose of comparison. I think so. You may answer that.

The Witness: Our profits for 1942 were \$119,000.

Q. (By Mr. Tonjes): For 1942?

A. Yes.

Q. Do you recall what they were for 1941?

A. No, I don't.

Mr. Tonjes: That is all.

Mr. Orem: That is all.

The Court: Very well.

(Witness excused.)

Mr. Orem: I will call Mr. Thorson to the stand.  
Whereupon,

CARLISLE JOHN THORSON

called as a witness for and on behalf of the petitioner, having been first duly sworn, was examined and testified as follows: [140]

Direct Examination

By Mr. Orem:

Q. Will you state your full name, please?

A. Carlisle John Thorson.

Q. What is your present business connection?

A. Corporate financial adviser.

Q. Just what does that consist of, Mr. Thorson?

A. Well consultation with corporations on financial problems, analysis, negotiation of corporate financing, reorganization work, negotiating loans and credit.

Q. Does that include any advice in regard to corporate salaries of executives?

A. Well, not directly or specifically, but it is involved in practically all of my work one way or another.

Q. Just briefly tell the background of your general business experience in the last twenty years or so.

A. Well, I am an attorney by profession.

(Testimony of Carlisle John Thorson.)

Q. In what state?

A. Colorado. I have followed financial work since graduation from college.

Q. When was that? A. 1914.

Q. Well, I mean have you been a financial adviser, independent financial adviser, continuously?

A. No. I first became associated with an investment [141] banking house having to do with the underwriting of securities, and then with the First National Bank in Denver, subsequent to the war with the First National Bank of Omaha, and in 1922 with the California Bank of Los Angeles.

Q. In 1922 with the California Bank of Los Angeles; how long did those services continue?

A. Until 1928.

Q. And what was your capacity there at that bank?

A. I was treasurer of the bank and manager of its corporate finance department.

Q. And in that connection was part of your work reviewing corporation balance sheets and profit and loss statements?

A. Yes, that was incidental naturally to considering corporate finance and underwriting securities, corporate trusteeships.

Q. What happened after 1928?

A. I left the bank to engage in my professional work as a financial adviser.

Q. That continued to what date?

A. Well, that continued until the fall of 1941, when I closed my office to undertake reorganization

(Testimony of Carlisle John Thorson.)

of a bank. On the completion of that in 1944 I became identified with the Air Corps.

Q. From 1941 to 1944 you were reorganizing that bank. What bank was that? [142]

A. San Diego Trust & Savings Bank of San Diego.

Q. And in connection with that reorganization, what was your official position there?

A. Vice president.

Q. And what were you vice president of, in charge of what? Was there a terminology there, department, vice president in charge of?

A. Well, I can best answer your question by explaining how I came to go there if that is in order. It is rather hard to specifically answer your question. I had been retained for a period of ten months by the bank to make an analysis of its trust department, the mortgage loan department and the real estate department, and concluded with my report making recommendations as to what should be done. The man that was coming into the bank to carry out those recommendations upon approval of the report was stricken with heart trouble and I was asked to come down to carry on my own recommendations. My going was not with the thought of permanency, but to effectuate the program contemplated by my recommendations, I had to be an officer of the bank.

Q. Did you have anything to do with corporations and corporate loans, anything of that sort during those years?

(Testimony of Carlisle John Thorson.)

A. Oh, yes. I was on the commercial loan committee, executive committee, real estate loan committee, and was in addition to that the trust officer.

Q. When a corporation came in there for a loan, just what was the procedure?

A. It was usually analyzed by the credit department and submitted to the commercial loan officer and then in turn submitted to the commercial loan committee, and then the loan if made was ratified by the board of directors loan committee.

Q. What did you do along the line of those particular loans in 1941 and '42, we will say?

A. Well, as a member of the commercial loan committee I naturally reviewed all the applications that were recommended by the loaning officer.

Q. Did that include balance sheet and profit and loss statement?

A. Very often, yes, most often.

Q. Did the balance sheets include statements of surplus and working capital and those general figures?

A. Oh, yes.

Q. Did the profit and loss statements include sales and profits and officers' salaries and so forth?

A. Ordinarily, yes. If we had any reason to question salaries and the information did not appear specifically, we asked for a breakdown.

Q. When you were making a corporate loan, would the trust company take action with respect to the officers' salaries? [144]

A. Occasionally.

(Testimony of Carlisle John Thorson.)

Q. Have you ever found them too low or too high in your opinion from time to time?

A. You frequently find them both ways. Occasionally you are not getting adequate management because of too low salaries and banks sometimes qualify the granting of a loan upon getting more competent management. All other times you do occasionally find salaries out of line.

Q. About how many balance sheets, profit and losses statements of various corporations showing officers' salaries did you review during 1941 and 1942?

A. That would be hard to say.

Q. Well, just roughly.

A. I cannot recall that.

Q. Would it be 10 or 5.

A. Well, it wasn't a very large commercial bank, as far as commercial loans go. I presume in a period of a couple of years maybe 150 to 200 of those commercial loans were analyzed thoroughly. You only use the balance sheet and profit and loss statement method when it is a loan of some substantial size.

Q. Now, taking your entire experience from 1922 when you went into the California Bank corporation department up to the present time, how many balance sheets and profit and loss statements of corporations showing officers' salaries [145] do you estimate that you have reviewed, if you can make such an estimate?

A. Well, it would be just a wild guess, Mr. Orem. I daresay I have analyzed the organiza-



(Testimony of Carlisle John Thorson.)

tional setup of more companies since I have been practicing for myself than I did while with either bank, because usually those transactions are screened before I get to them, the credit department screened out those applications.

Q. Well, I mean since you were in the course of your practice; how many years by the way have you practiced as a financial adviser?

A. Thirteen years before the war and then I just resumed now in the last six months.

Q. During that time about how many corporate balance sheets and profit and loss statements have you examined?

A. Oh, a wild guess would be three or four hundred.

Q. Were they in various types of industry?

A. Varied, yes, widely diversified.

Q. You have had some opportunity of judging the amount of corporate salaries paid in San Diego during 1941 and '42 and comparing them with Los Angeles, haven't you?

A. Well, I had no occasion during 1941 and 1942 to make comparisons with Los Angeles, if that is what your question contemplates. Did you ask if I had occasion to make comparisons? [146]

Q. I mean with salaries at San Diego compared to Los Angeles, whether they were actually higher or actually lower.

Mr. Tonjes: Do you know?

The Witness: Frankly I do not know.

(Testimony of Carlisle John Thorson.)

Q. (By Mr. Orem): You have been in this courtroom since this case started this morning?

A. Yes.

Q. Continuously? A. Yes, sir.

Q. Have you listened to all the questions that the counsel have asked and the answers of the several witnesses? A. Yes.

Q. And did you hear the hypothetical questions that were asked of Mr. Miller? A. Yes.

Q. Now, should I ask you the same hypothetical questions, do you have an opinion as to the value of the services of Mr. Kennedy and Mr. Hayek or either of them to the Kennedy Nameplate Company for the years ending June 30, 1941, and June 30, 1942, or either year? A. Yes.

Q. Will you state what in your opinion the services of Mr. Joseph Hayek were worth to the Kennedy Nameplate Company [147] in the year ending June 30, 1941?

Mr. Tonjes: I object to the question, if your Honor please, for the reason that this witness is not qualified. I think Mr. Kennedy and Mr. Miller both emphasized the fact that this nameplate business was a highly technical business and the ordinary business experience of a person would have very little bearing on making him qualified to be the operator of a nameplate business, and this witness has not shown that he has any knowledge of any corporate or organization activity in the nameplate business. Until that is shown I submit he is not qualified to express any opinion.

(Testimony of Carlisle John Thorson.)

The Court: I think I will have to sustain that objection. It seems to me that this witness, as a corporation adviser, doubtless does have quite a good deal of information as to what different corporations pay, but I think it is so well known that the Court will take judicial notice that there is no uniformity of salary, one industry might pay a great deal more in proportion than another and it seems to me that in order to qualify this witness as an expert and to entitle him to give the Court an opinion as to whether he regarded the salary paid Mr. Kennedy and Mr. Hayek as reasonable, he would have to have knowledge of that sort of business and have a good deal of familiarity with that sort of business. I don't think this witness has. He has a general knowledge doubtless of corporation reorganization and corporate business. [148] I think I will have to sustain that objection, Mr. Orem.

Mr. Orem: I ask that an exception be noted.

The Court: Yes.

Mr. Orem: Of course it is a matter of opinion really as to whether a man with better knowledge could qualify on this.

The Court: Yes. Well, that is a question for the Court. I would not be entirely free from doubt. I think that at best expert testimony is not as valuable to the Court as the testimony as to what this man did and the volume of business and the earnings that came in. That after all is more valuable to the court than anything else. I have of

(Testimony of Carlisle John Thorson.)

course a willingness, counsel, to receive expert testimony for whatever it may be worth to the Court in weighing the facts, but I think it involves a **certain** amount of experience and knowledge of the business in order to qualify the witness to give testimony that would be of value.

Mr. Orem: I am of course submitting Mr. Thorson as a witness with financial experience and with a general knowledge of salaries.

The Court: Yes.

Mr. Orem: In the industry in general, not in this particular industry.

The Court: Yes, but I think I will have to—my best judgment would be not to admit it.

Q. (By Mr. Orem): Now, Mr. Thorson, have you had any experience in the—do you have any knowledge of the salaries paid in the plating industry? A. Not specifically, no.

Q. Or in metal fabrication?

A. Well, to some extent metal fabrication, yes, not specifically. However, I have had occasion to process a metal fabrication company.

Q. What type of metal fabrication, what types?

A. Airplane manufacture for one, furniture, metal furniture.

Mr. Orem: That is all.

The Court: I admitted the testimony of Mr. Miller because he was familiar with the industry and had knowledge of it.

Mr. Orem: In other cases I have had the testimony of bankers admitted with general knowledge,

(Testimony of Carlisle John Thorson.)

somewhat similar experience. Of course, still as you say it is just a matter——

The Court: Yes. I think with all due respect to the witness that his opinion could not help the court very much, even if it was expressed, because of his lack of knowledge of this specific business.

Q. (By Mr. Orem): You don't have any particular knowledge of the nameplate business? [150]

A. I do not.

Mr. Orem: Very well, that is all.

Mr. Tonjes: No questions.

(Witness excused.) [151]

### JOSEPH W. HAYEK

called as a witness for and on behalf of the Petitioner, having been first duly sworn, was examined and testified as follows:

#### Direct Examination

By Mr. Orem:

Q. Please state your full name?

A. Joseph W. Hayek.

Q. What office do you hold at the present time in the Kennedy Nameplate Company?

A. President.

Q. How long have you continuously held that office?

A. Since 1923, since it was incorporated.

Q. Have you also been a director of the company since that date? 1923? A. Yes.

Q. At any time from 1923 to the present time,



(Testimony of Joseph W. Hayek.)

did you devote any portion of your time to any other business than the Kennedy Nameplate Company?

A. No. [152]

Q. Will you please state the extent of your technical education?

A. Well, I went to gymnasium school in Czechoslovakia, studied chemistry and mathematics. Then I took a course for two years at the Cal Tech here, and in 1908 I started the nameplate industry because that was something new that was brought to this country in 1906, and I was very much interested because it took so much chemical information to do it. In 1909 I took charge of the Crowe Nameplate & Engraving Plant in Chicago, just a small plant at that time.

In 1912 I started Greenduck Company nameplate department. In 1914 I took charge of the Chrysler nameplate in Chicago. In 1915 I went to Minneapolis and took charge of the Sager Manufacturing Company. In 1917 or '18 I started in business for myself, until 1921 when I sold to Mr. Kennedy and his uncle. They moved the plant to Los Angeles, and I came out here and I bought out Mr. Kennedy's uncle, and in 1923 we were incorporated.

Q. From 1907 to 1946, most of the time were you engaged in any other business except the nameplate business?

A. No.

Q. You put your entire business experience from 1907 to this date as being in the nameplate business?

A. That is right.

Q. And now prior to your association with the



(Testimony of Joseph W. Hayek.)

Kennedy [153] Nameplate Company, did you have any offers from any other companies of salaried positions in the nameplate business?

A. In January, 1930, I was in Chicago and the Crowe Nameplate & Engraving Company whom I worked for in 1909, '10 and '11, made me an offer to take charge of their nameplate department, outside of the die making department, and at a salary of \$12,000 a year plus 20 per cent of the scrap, with a contract for five years if I desired, and I could have a contract for any length of time. They offered to buy the Kennedy Nameplate out at that time.

Mr. Orem: For the record the name of the Crowe Nameplate Company is C-r-o-n-a-m-e?

The Witness: C-r-o-w-e.

Q. (By Mr. Orem): Did you have any offers from any other companies?

A. Yes, I had prior to that, a year, around that, a firm out in Middleboro, Massachusetts, Colonial Brass Company, Middleboro, Massachusetts, at a salary of \$7500 a year. That was in 1921 or '2.

Q. When you were with this Crowe Nameplate Company that you described, about how many employees did they have?

A. When I first started there we had only about six.

Q. And do you know how many employees that firm has now?

A. They have over 3,000 employees at the present time. [154]

(Testimony of Joseph W. Hayek.)

Q. As president of the Kennedy Nameplate Company during the years ending June 30, 1941, and June 30, 1942, just what were your duties? What did you do during those years?

A. My duties was complete charge of production. In the nameplate business there are at least ten very important different trades hired, and I have to watch that production from the art department and the die making and engraving and shearing, packing and everything, the whole production.

Q. Just how many different processes are there in production?

A. Well, there is the art department and photographic department, there is the lithographic department, there is the etching, there is plating, there is shearing, there is die making, punch press operations, and engraving.

Q. You are in charge of all those departments?

A. Yes, and the decalcomania department.

Q. During your employment with the Kennedy Nameplate Company, have you perfected any new processes of manufacture or techniques?

A. Many of them. Every few months we have to get something new. That is my end of the business.

Q. Will you describe what new processes or techniques you did devise?

A. Well, first I set up the repeat camera on our [155] negatives, instead of making so many prints on paper and pasting them up and photographing them, we just make a negative, and to make it I

(Testimony of Joseph W. Hayek.)

made my multiplying camera where you put the negative in there and multiply it like that.

Then in the etching and in the lithographic department where there is about thirty-two operations to completely finish the article, we eliminate powdering, painting, fixing and baking on certain jobs, and our plating we have a setoff process and on plating colors, there are three or four different ways to plate colors, and where we used to put them in with a little brush, we spray them in or lithograph the colors in. In etching we deviated from the regular routine zinc process in order to get the electrochemical process, and that didn't work out very good and a new process was proposed on that by us.

In the die making department, we make quite an improvement in making dies by saving time, instead of making a regular layout we make our layout by photographic processes.

In the engraving department we improve it by setting up type in a straight line, and we make an attachment whereby we can put the same straight line on a curve on a plate, something where the manufacturer of the engraving machine made the remark it was impossible. I spent a lot of my time extra on different chemicals to oxidize special metals, instead of using color for plating process we use oxidizing [156] solution whereby we can oxidize a hundred or a hundred and twenty pieces at one time and take maybe ten minutes whereby spraying it would take maybe four or five hours.

Our oxidizing zinc, which was impossible to do

(Testimony of Joseph W. Hayek.)

until several years ago, when I got a solution, and we are the only firm on the West Coast that does anything like that.

And then during the war I had to work out processes for plastics and fibre, fluorescent plates, we worked them out in our plant, and many others that I can't remember.

Q. How many hours per day do you work?

A. Well, I am the first one in in the morning. I put in twelve to fourteen hours a day and Saturday about six, and many times I worked there on Sunday during the war, when there was something that was very important, I worked there more than once, worked all night, just to get through because our work can't depend on a helper and too many different processes they go through, I have to watch for a certain amount of time one process one evening. By going through every department in that way having to watch everything I have to be there.

Q. During the years 1941 and 1942, just what hours did you work every week on an average?

A. I would say about 70 or 75 hours a week.

Q. How did those hours compare with those that you worked in 1940 and 1939?

A. Well, I—1939 I didn't work quite as many hours. [157]

Q. About how many hours did you work in 1939?

A. Oh, I worked about nine hours a day five days a week, eight to nine hours a day.

Q. In 1940 how many hours?

A. 1940 because we had—well, in 1940 we started

(Testimony of Joseph W. Hayek.)

to work in aircraft production for France and Russia, and at that time we had to do a lot of experimenting and a lot of work that was in a hurry, so I spent quite a bit of time there.

Q. What compensation did you receive for your service from the Kennedy Nameplate Company for the year ending June 30, 1940? A. \$17,000.

Q. For the year ending June 30, 1942?

A. The same thing.

Q. And did you also receive some proceeds from the sale of scrap in those two years?

A. Yes, I did, yes.

Q. You received the amounts that are shown in the tax returns? A. Yes, that is right.

Q. For those years, in the individual tax returns for yourself and Mrs. Hayek?

A. That is right.

Q. And what did you consider that sum that you received [158] from the sale of scrap to be, what nature?

A. Well, I didn't give it any consideration. I figured it was pin money, because everywhere I ever worked I always got the scrap or a certain part of the scrap. When I was offered the job there by Crowe Nameplate in 1930 my salary was \$12,000 a year plus 20 per cent of the scrap, and in 1916 when I was working at the Sager Manufacturing in Minneapolis, my salary was \$4420 plus the scrap of all metal except silver, sterling silver.

Q. Now, you have known Mr. Kennedy I believe since 1921? A. That is right.



(Testimony of Joseph W. Hayek.)

Q. You have been associated with him in business since that time? A. That is right.

Q. Have you had an opportunity to observe his qualifications? A. That is right.

Q. Do you know what salary he received from the company in 1941 and 1942?

A. That is right.

Q. Have you an opinion as to whether he reasonably earned that amount of money or not?

A. I should think he did. [159]

Q. You tell me you got an offer of employment from the Crowe Nameplate?

A. Crowe Nameplate & Engraving Company.

Q. When did you get that offer?

A. In January, 1930, during the depression.

Q. Do you know how big an organization that was in 1930 or at about the time they made the offer?

A. At that time they made the offer they employed about six hundred people. [160]

Q. About six hundred?

A. Yes. I was supposed to be in full charge of the nameplate department, for they wanted to get their nameplate into right production.

Q. Do you know how many people they had engaged in the nameplate department of which you were to take charge?

A. I couldn't say. About 80 or 100.

Q. You say they offered you how much money?

A. \$12,000 a year plus 20 per cent of the scrap and thereafter I could write my own contract for



(Testimony of Joseph W. Hayek.)

five years or didn't have to wait on them if there is anything I wanted.

Q. You don't know how much their sales were?

A. No, I don't.

Mr. Tonjes: That is all, I think. [161]

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[Title of Tax Court and Cause.]

## DESIGNATION OF CONTENTS OF RECORD ON REVIEW

To the Clerk of the Tax Court of the United States:

You will please prepare, transmit and deliver to the Clerk of the United States Court of Appeals for the Ninth Circuit copies duly certified as correct of the following documents and records in the above-entitled cause in connection with the petition for review heretofore filed by Kennedy Name Plate Company:

(1) The docket entries of all proceedings before the Tax Court.

(2) Pleadings before the Tax Court, as follows:

(a) Petition.

(b) Answer.

(3) The memorandum findings of fact and opinion of the Tax Court.

(4) Petitioner's motion to vacate and set aside the memorandum findings of fact and opinion.

(5) Order denying motion to vacate and set aside memorandum findings of fact and opinion heretofore entered.

(6) The decision of the Tax Court under Rule 50 entered July 30, 1947.

(7) The petition for review. [162]

(8) Notice of filing petition for review.

(9) From the official transcript of oral testimony the following:

(a) Index.

(b) Proceedings from Page 1 to and including line 8 on page 6.

(c) That testimony of William James Kennedy which begins on Page 15 at line 2 to and including line 20 on page 39.

(d) That testimony of William James Kennedy which begins on page 79 at line 11 to and including line 3 on page 97.

(e) That testimony of William James Kennedy which begins on page 106 at line 19 to and including line 4 on page 114.

(f) That testimony of William James Kennedy which begins on page 116 at line 16 to and including line 11 on page 119.

(g) That testimony of Charles W. Miller which begins on page 119 at line 12 and ends upon page 138 at line 19.

(h) That testimony of Carlisle John Thorson which begins on page 138 at line 20 and ends upon page 149 at line 4.

(i) That testimony of Joseph W. Hayek which begins on page 150 at line 6 to and including line 24 on page 157.

(j) That testimony of Joseph W. Hayek

which begins on page 170 at line 17 to and including line 14 on page 171.

(10) This designation of contents of record on review.

/s/ PRESTON D. OREM,  
Counsel for Petitioner.

Personal service of the foregoing designation is hereby acknowledged as having been made this 13th day of November, 1947.

/s/ CHARLES OLIPHANT, CAR,  
Chief Counsel, Bureau of  
Internal Revenue,  
Counsel for Respondent.

[Endorsed]: Filed Nov. 24, 1947. [163]

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[Title of Tax Court and Cause.]

### CERTIFICATE

I, Victor S. Mersch, clerk of The Tax Court of the United States, do hereby certify that the foregoing pages, 1 to 163, inclusive, contain and are a true copy of the transcript of record, papers, and proceedings on file and of record in my office as called for by the Praeceptum in the appeal (or appeals) as above numbered and entitled.

In testimony whereof, I hereunto set my hand and affix the seal of The Tax Court of the United States, at Washington, in the District of Columbia, this 28th day of November, 1947.

[Seal] /s/ VICTOR S. MERSCH. EMT  
Clerk, The Tax Court of the  
United States.

[Endorsed]: No. 11804. United States Circuit Court of Appeals for the Ninth Circuit. Kennedy Name Plate Company, a Corporation, Petitioner, vs. Commissioner of Internal Revenue, Respondent. Transcript of the Record. Upon Petition to Review a Decision of The Tax Court of the United States.

Filed: December 2, 1947.

/s/ PAUL P. O'BRIEN,

Clerk of the United States Circuit Court of Appeals  
for the Ninth Circuit.

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In the United States Circuit Court of Appeals  
for the Ninth Circuit

Docket No. 11804

KENNEDY NAME PLATE COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

STATEMENT OF POINTS FOR PETITIONER  
AND DESIGNATION FOR PRINTING  
UNDER SUBDIVISION 6 OF RULE 19

Points on Appeal

(1) The Tax Court of the United States erred in failing to allow as a deduction under section 23 (a)(1)(A) Internal Revenue Code, as reasonable compensation for services rendered by its two officers any amount in excess of the regular salaries

paid each year in the total amount of \$24,000.00 plus proceeds from the scrap sales.

(2) The Tax Court erred in holding that the payments of the bonuses to the two officers in the total amount of \$10,000.00 for each year were in the nature of dividend distributions on stock and not deductible by petitioner as ordinary and necessary expenses under section 23 (a)(1)(A) of the Internal Revenue Code.

(3) The Tax Court erred in finding that there were deficiencies for the taxable years ended June 30, 1941, and June 30, 1942, in lieu of a determination that there were no income taxes, declared value excess-profits taxes and excess profits taxes due from the petitioner for the two years in controversy.

(4) The Tax Court erred in declining to grant petitioner's motion to vacate and set aside the memorandum, findings of fact, and opinion on the grounds that the Tax Court had not complied with the provisions of the Administrative Procedure Act. (Chapter 324—Public Law 404.)

(5) There was no substantial evidence to justify the findings of the Tax Court within the provisions of the Administrative Procedure Act, and more particularly Section 10(e) of said Act.

(6) The Tax Court erred in not giving full faith and credit to the resolution of the Board of Directors of petitioner, adopted at the regular meeting of said Board on June 11, 1941, voting bonuses of \$5,000 each to the two officers of petitioner.

(7) The Tax Court erred in declining to give proper weight to the testimony of Charles N. Miller with respect to the reasonableness of the compensation paid by petitioner to its two principal officers.

Designation for Printing

Petitioner designates for printing the entire certified transcript as prepared by the Tax Court of the United States.

/s/ PRESTON D. OREM,  
Counsel for Petitioner.

Personal service of the foregoing Statement of Points for Petitioner and Designation for Printing under Subdivision 6 of Rule 19, is hereby acknowledged as having been made this 10th day of December, 1947.

/s/ THERON L. CANDLE,  
Assistant Attorney General,  
Counsel for Respondent.

[Endorsed]: Filed Dec. 16, 1947.





No. 11804

IN THE

United States Circuit Court of Appeals  
FOR THE NINTH CIRCUIT

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KENNEDY NAME PLATE COMPANY, a corporation,  
*Petitioner,*

*vs.*

COMMISSIONER OF INTERNAL REVENUE,  
*Respondent.*

---

PETITIONER'S OPENING BRIEF.

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PAUL F. JONES



## TOPICAL INDEX

	PAGE
Jurisdictional statement .....	1
Statement of the case.....	3
Pleadings and proceedings herein.....	10
Specification of errors.....	12
Argument .....	14

### I.

The Tax Court of the United States erred in failing to allow as a deduction under Section 23 (a) (1) (A), Internal Revenue Code, as reasonable compensation for services rendered by its two officers any amount in excess of the regular salaries paid each year in the total amount of \$24,000.00 plus proceeds from the scrap sales.....	14
--	----

### II.

The Tax Court erred in holding that the payments of the bonuses to the two officers in the total amount of \$10,000.00 for each year were in the nature of dividend distributions on stock and not deductible by petitioner as ordinary and necessary expenses under Section 23 (a) (1) (A) of the Internal Revenue Code.....	18
---	----

### III.

The Tax Court erred in finding that there were deficiencies for the taxable years ended June 30, 1941, and June 30, 1942, in lieu of a determination that there were no income taxes, declared value excess profits taxes and excess profits taxes due from the petitioner for the two years in controversy .....	19
---	----

IV.

The Tax Court erred in declining to grant petitioner's motion to vacate and set aside the memorandum, findings of fact, and opinion on the grounds that the Tax Court had not complied with the provisions of the Administrative Procedure Act (Chapter 324, Public Law 404).....	20
---	----

V.

There was no substantial evidence to justify the findings of the Tax Court within the provisions of the Administrative Procedure Act, and more particularly Section 10 (e) of said Act.....	23
---	----

VI.

The Tax Court erred in not giving full faith and credit to the resolution of the board of directors of petitioner, adopted at the regular meeting of said board on June 11, 1941, voting bonuses of \$5,000 each to the two officers of petitioner..	28
--	----

VII.

The Tax Court erred in declining to give proper weight to the testimony of Charles W. Miller with respect to the reasonableness of the compensation paid by petitioner to its two principal officers.....	30
Relief sought .....	33

## TABLE OF AUTHORITIES CITED

CASES	PAGE
Bingham v. Commissioner, 325 U. S. 365.....	15
Capitol-Barg Dry Cleaning Co. v. Commissioner, 131 F. (2d) 712.....	15, 16, 17, 32
Commissioner of Internal Revenue v. Gooch, 320 U. S. 418.....	21
Consolidated Edison Co. v. National Labor Relations Board, 305 U. S. 209.....	24
Dawson v. Commissioner, 163 F. (2d) 664.....	22
Dobson v. Commissioner, 320 U. S. 489.....	14, 15, 16, 27
Kroger Estate v. Commissioner, 145 F. (2d) 901.....	15
Levine and Bros., Inc. v. Commissioner, 101 F. (2d) 391.....	18
Lincoln Electric Co. v. Commissioner, 162 F. (2d) 379.....	11, 22
Lueders Estate v. Commissioner, ..... F. (2d) ....., Oct. 16, 1947 (C. C. A. 3).....	27
Old Colony Trust Co. v. Commissioner, 279 U. S. 716.....	20

## STATUTES AND REGULATIONS

## Administrative Procedure Act (Chap. 324, Public Law 404):

In general .....	13, 20
Sec. 2(a) .....	11, 20
Sec. 8 .....	11, 22
Sec. 10(e) .....	13, 23, 24

## Internal Revenue Code:

Sec. 23 (a) (1) (A).....	12, 13, 14, 17, 27
Sec. 102 .....	3, 10, 11
Sec. 272 (a) (1).....	1
Sec. 1100 .....	20
Sec. 1141 (b) (1).....	2
Sec. 1142 .....	2

Revenue Act of 1942, Sec. 504.....	21
------------------------------------	----



Treasury Department—Regulations of Commissioner of Internal  
Revenue:

Regulations 103, Sec. 19.23(a)-6.....	18
Regulations 111, Sec. 29.23(a)-6.....	14
Regulations 111, Sec. 29.23(a)-8.....	29

MISCELLANEOUS

Administrative Procedure—Commerce Clearing House, Inc.....	26
House of Representatives Report 2333, 77th Cong.....	21
Senate Document 248, 79th Cong.....	24

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*Petitioner,*

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COMMISSIONER OF INTERNAL REVENUE,  
*Respondent.*

---

**PETITIONER'S OPENING BRIEF.**

---

**Jurisdictional Statement.**

This is a petition for a review of a decision of The Tax Court of the United States entered upon July 30, 1947, determining deficiencies in income taxes of petitioner for the taxable years ended June 30, 1941, and June 30, 1942, in the respective amounts of \$2,083.19 and \$1,413.68; deficiencies in the declared value excess profits taxes of petitioner for the taxable years ended June 30, 1941, and June 30, 1942, in the respective amounts of \$1,320.01 and \$1,320.00; and deficiencies in excess profits taxes of petitioner for the taxable years ended June 30, 1941, and June 30, 1942. in the respective amounts of \$2,023.31 and \$4,119.75. [Tr. p. 69.]

The Tax Court of the United States had jurisdiction of the controversy between the parties hereto under the pro-

visions of Section 272 (a) (1) of the Internal Revenue Code.

The petitioner is a California corporation. [Tr. p. 5.]

The pleadings necessary to show the jurisdiction of The Tax Court of the United States are the Petition [Tr. pp. 4-29] and the Answer. [Tr. pp. 29-30.]

The petitioner's corporation income and excess profits tax returns for the fiscal years ended June 30, 1941, and June 30, 1942, were filed with the Collector for the Sixth Collection District at Los Angeles [Tr. p. 34], which is located within the circuit of the United States Court of Appeals for the Ninth Circuit.

The United States Circuit Court of Appeals for the Ninth Circuit has jurisdiction to review the decision of The Tax Court of the United States under the provisions of Section 1141 (b) (1) of the Internal Revenue Code.

The decision of The Tax Court of the United States was entered on July 30, 1947. [Tr. p. 4.] Petitioner filed with the Clerk of The Tax Court of the United States a petition for review by the Circuit Court of Appeals for the Ninth Circuit of the said decision of The Tax Court on October 27, 1947. [Tr. pp. 69-73.] The petition for review, being filed within three months after the entry of the decision of The Tax Court, was timely. (Section 1142 of the Internal Revenue Code.)

### Statement of the Case.

The respondent determined certain deficiencies in the income and excess profits taxes of petitioner for the taxable years ended June 30, 1941, and June 30, 1942. [Tr. p. 18.] Petitioner, by appropriate assignments of error, contested the proposed deficiencies, adjustments and holdings of respondent by a petition to The Tax Court of the United States. [Tr. p. 34.]

There were three issues involved in the proceedings before The Tax Court. [Tr. p. 52.] These issues were as follows: (1) As to whether the respondent erred in disallowing as excessive compensation the bonuses which petitioner paid to its two officers during each of the taxable years here involved. (2) As to whether respondent erred in increasing petitioner's income for each of the taxable years by the amount of the proceeds of certain sales of scrap paid over to the two officers in each of the taxable years here involved. (3) As to whether respondent erred in determining that petitioner was subject to the surtax on corporations imposed by Section 102 of the Internal Revenue Code for each of the taxable years here involved. [Tr. p. 52.]

The petitioner was sustained by The Tax Court with respect to the second issue [Tr. p. 32] and the third issue. [Tr. p. 32.]

This petition for review relates to the first issue involving the bonuses paid to the two officers of petitioner which was determined by The Tax Court in favor of respondent. The Tax Court summarizes its opinion on this point as follows:

*"Held*, petitioner is not entitled to deduct under Section 23 (a) (1) (A), I. R. C., as reasonable compensation for services rendered by its two officers

any amount in excess of the regular salaries paid each year in the total amount of \$24,000.00 and proceeds from the scrap sales; *held, further*, the payments of the bonuses were in the nature of dividend distributions on stock and not deductible by petitioner as ordinary and necessary expenses under Section 23 (a) (1) (A).” [Tr. pp. 31-32.]

For the convenience of the Court, there is submitted at this point such findings of fact of The Tax Court as relate to the issue on appeal herein, appearing on pages 34 to 41, inclusive, of the Transcript of the Record:

“Petitioner is a corporation. It was incorporated under the laws of the State of California on August 19, 1923, and has its principal office and place of business in the City of Los Angeles. It filed its corporation income and excess profits tax returns for the fiscal years ended June 30, 1941, and June 30, 1942, with the collector for the sixth collection district at Los Angeles. (21)

“Joseph W. Hayek has been in the name plate business since 1907. From 1907 to 1917 he either managed name plate companies or the name plate departments of various companies. In 1917 he started a name plate business in Minneapolis, Minnesota, under the name of Hayek Nameplate & Novelty Company. In 1921 he sold this business to William James Kennedy and Kennedy’s uncle. Kennedy and his uncle moved the business to Los Angeles, California, and began to operate it as a partnership under the name of Kennedy Nameplate Company. Hayek originally became an employee of the partnership and had charge of the production end of the business. Soon thereafter Kennedy’s uncle sold his 50 per cent interest in the partnership to Hayek and in 1923

Hayek and Kennedy organized the petitioner herein. The business of the partnership was transferred to petitioner in exchange for the latter's stock. From the time of organization to and through the taxable years here involved Hayek has been the president and a director of petitioner and Kennedy has been the secretary-treasurer and a director. Both men have devoted their entire time to petitioner's business and have engaged in no outside business activities.

"At the time petitioner was organized it issued 1,251 shares of its stock to Hayek, 1,251 shares to Kennedy, and 1 share to a Mr. Frank who became a director along with Hayek and Kennedy. Petitioner had only three directors. Frank was later succeeded by D. R. Koelling who then became the third director. The stock had a par value of \$10 per share. During the taxable years here in question the stock that was issued to Hayek was owned by him as his separate property and the stock that was issued to Kennedy was either owned by him as his separate property or by him and his wife, Alice L. Kennedy, as community property. (22)

"Kennedy was employed by various companies in New York City, Chicago, and in South America from 1912 to 1921 when he first engaged in the name plate business. He had had quite extensive experience as an executive and manager and in sales promotion both in the United States and in South America.

"From the time petitioner was organized to and through the taxable years here involved Hayek and Kennedy divided the important managerial functions of petitioner's business between them. Hayek was in complete charge of production, supervising the work of men employed in several different trades



including art, die making, engraving, photography, etching, plating, lithography, decalcomania manufacture and punch press operations. He also employed a portion of the technical personnel. He perfected many new processes and techniques including a new method for camera work, the elimination of certain etching and lithographic operations, die making improvements, new engraving methods, new chemical solutions and new uses for chemical solutions, new processes for plastics and fibre, fluorescent plates and many others. He and Kennedy together devised a new type of conveyor to operate under a bank of infra red light which has been quite successful. Kennedy was in complete charge of all departments and activities of petitioner except production, including sales, advertising, price figuring, employment of a portion of the technical personnel, collections, purchases, finances and also keeping in constant touch with new technological developments and processes.

During the taxable years ended June 30, 1941, and June 30, 1942, Hayek worked from 65 to 75 hours per week as compared with about 45 hours in 1939. Many times he worked on Sunday during the war and more than once he was required to work all night on important war jobs. Kennedy worked about 54 hours per week during the taxable years as compared with about 45 hours per week during 1939 and 1940. (23)

"The business of petitioner during the years 1941 and 1942 included the production of many items in addition to name plates, including scales, dials, instruction and designation plates, luminous, fluorescent and phosphorescent plates and other articles of similar nature which were sold largely to the airplane industry. It was necessary to substitute plastics and

fibres for metals in manufacturing many products because of the shortage of metals and the necessity for conserving strategic materials. The business of the company during these years also involved the use of radium and black light. Many problems arose due to the fumes caused by the use of certain materials, allergies and radioactivity. Government inspection during the war was very rigid, requiring greater accuracy in production than in prior years.

“The by-laws of petitioner empowered the board of directors to appoint and remove all officers of the company, prescribe their duties and fix their compensation.

“The minutes of the regular meeting of the board of directors of petitioner held on April 30, 1940, provides in part as follows:

“‘On motion of Jos. W. Hayek, seconded by D. R. Koelling, it was voted to increase the salary of W. J. Kennedy, to \$12,000 per year, retroactive to July 1st, 1939. W. J. Kennedy, then relinquished the chair to Jos. W. Hayek, and moved, seconded by D. R. Koelling that the salary of Jos. W. Hayek be increased to \$12,000 per year, retroactive to July 1st, 1939.’

“The minutes of the regular meeting of the board of directors of petitioner held on June 11, 1941, provides in part as follows:

“‘On motion of W. J. Kennedy, seconded by D. R. Koelling, a bonus of \$5,000 was voted to Jos. W. Hayek and W. J. Kennedy.’

“Petitioner’s net sales, officers’ compensation (Hayek and Kennedy only), net income before Federal taxes on income, Federal taxes on income, and net profits for the fiscal years ended June 30, 1936, to June 30, 1942, were as follows:

Year ended June 30	Net Sales	Officers' Compensation	Net income before Federal taxes	Federal taxes on Income	Net Profit
1936	82,153.49	6,542.00	16,430.61	2,925.79	13,504.82
1937	98,354.42	15,000.00	13,870.53	2,961.67	10,908.86
1938	109,464.23	15,322.40	6,387.47	1,526.50	4,860.97
1939	109,966.49	15,183.30	10,164.23	1,347.99	8,816.24
1940	151,446.43	24,194.80	15,862.53	2,145.75	13,716.78
1941	256,451.30	34,000.00	46,942.07	16,709.61	30,232.46
1942	363,912.88	34,000.00	91,747.72	50,597.47	41,150.25

“Beginning in 1931 petitioner began paying bonuses to certain of its employees. During the taxable years such bonuses approximated \$12,000 to \$14,000 per year. During the fiscal years ended June 30, 1937, to June 30, 1942, inclusive, petitioner’s employees numbered 39, 36, 37, 53, 73 and 90, respectively.

“Petitioner accumulated certain scrap from time to time which is the metal that was left over from the various jobs. It is usually referred to as ‘overs on jobs’ and is sold as scrap. The proceeds from the sales of scrap by petitioner amounted to \$1,873.16 for the fiscal year ended June 30, 1941, and \$1,716.36 for the fiscal year ended June 30, 1942. One-half of these amounts was paid over to Hayek and one-half to Kennedy, who, together with their respective wives, reported the amounts in their individual income tax returns as income from the sale of scrap. Petitioner did not return any of the proceeds from the sales of scrap as income and neither did it deduct any amount as compensation, or otherwise, on account of the said proceeds that were paid over to Hayek and Kennedy. The proceeds from the sale of scrap was a part of petitioner’s gross income and should have been returned by petitioner as such. It is

the practice in the name plate industry to permit officers to sell scrap and to regain the proceeds from such sales as a bonus or additional compensation. Everywhere that Hayek ever worked he always got the scrap or part of (25) the scrap. In 1916, when he was working for a Minneapolis concern, his salary was \$4,420 plus all the scrap except the scrap from sterling silver. In 1930 he was offered a position at an annual salary of \$12,000 plus 20 per cent of the scrap.

“During the years 1941 and 1942 there were only two or three firms besides petitioner in the name plate business in the Los Angeles area. The principal competitor of petitioner in the Los Angeles area was Miller Dial & Nameplate Company. During the years 1941 and 1942 Miller Dial & Nameplate Company was a partnership composed of two brothers, Charles W. Miller and John Dawson Miller. The duties of Charles in the partnership were very similar to those of Kennedy in petitioner and the duties of John in the partnership were very similar to those of Hayek in petitioner. The sales of Miller Dial & Nameplate Company for the calendar year 1941 were approximately \$156,000 and for the calendar year 1942 they were approximately \$338,000. No salaries were paid to the partners in Miller Dial & Nameplate Company for the year 1941; the partners simply made withdrawals as needed. For the year 1942 the salary of Charles was \$24,000 and that of John was \$18,000.

“During February or March of the year 1943 the Northern Engraving Company of Racine, Wisconsin, offered to purchase a 51 per cent control of the business of petitioner and to retain the services of Hayek and Kennedy for a period of two years. This offer was rejected.

“Petitioner has declared or paid no dividends, as such, since the fiscal year ended June 30, 1938. (26)”

The foregoing findings of fact, in the opinion of petitioner, present a fair and correct summary of the evidence. To the next to the last paragraph quoted from the findings of fact of The Tax Court, petitioner desires to add the statement that Northern Engraving Company of Racine, Wisconsin, in offering to retain the services of Hayek and Kennedy for two years, offered them \$17,000.00 per year each as annual compensation for their services. [Tr. pp. 124-125.]

### **Pleadings and Proceedings Herein.**

PLEADINGS: The petition of petitioner Kennedy Name Plate Company for a redetermination of the deficiencies in income and excess profits taxes for the fiscal years ended June 30, 1941, and June 30, 1942, was filed with The Tax Court of the United States on December 11, 1944. [Tr. p. 2.] The petition alleged errors: (a) In the disallowance as a deduction from net income of a portion of the compensation of J. W. Hayek and W. J. Kennedy for each of the two taxable years in issue. The disallowances included the proceeds of scrap sales and bonuses. (b) In holding that petitioner was availed of for the purpose of preventing the imposition of surtax upon its shareholders by an unreasonable accumulation of earnings, thereby incurring a surtax under the provisions of Section 102 of the Internal Revenue Code for each of the two taxable years in issue. [Tr. pp. 5-6.]

The answer of respondent to the petition, which was filed on February 5, 1945, simply denied the allegations of error. There were no affirmative allegations in the answer. [Tr. pp. 29-30.]



**TRIAL:** The case was heard before Hon. Eugene Black, Judge, sitting as a circuit division of The Tax Court of the United States, on June 12, 1946, in Los Angeles, California. [Tr. p. 3.]

The Tax Court entered its memorandum Findings of Fact and an Opinion by Judge Black on May 29, 1947. The said court found for the petitioner on the issue involving a proposed surtax under the provisions of Section 102 of the Internal Revenue Code. [Tr. p. 32.] With respect to the compensation issues, the court found for petitioner on the issue involving the proceeds of scrap sales retained by the two officers of petitioner, but found for the respondent on the issue of bonuses paid to the two officers of petitioner. [Tr. pp. 31-32.] Judgment was that decision would be entered later under Rule 50 of The Tax Court. [Tr. p. 65.]

**MOTION TO VACATE:** On June 20, 1947, petitioner filed a Motion to Vacate and set aside the memorandum findings of fact and opinion on the grounds that The Tax Court had not complied with the provisions of Section 8 of the Administrative Procedure Act (Chapter 324, Public Law 404) in that petitioner had been served with the memorandum findings of fact and opinion without prior notice thereon. and had not been granted a reasonable time to file its objections and exceptions to the proposed findings of fact and opinion prior to their entry by The Tax Court of the United States [Tr. pp. 66-67], said Tax Court being an agency of the Government of the United States within the meaning of Section 2 of the said Administrative Procedure Act.

*The Lincoln Electric Co. v. Commissioner of Internal Revenue*, 162 F. (2d) 379.



On July 14, 1947, The Tax Court, by Judge Eugene Black, entered an order denying the Motion to Vacate and set aside the memorandum findings of fact and opinion heretofore entered. [Tr. p. 68.]

DECISION: On July 30, 1947, The Tax Court entered its decision (under Rule 50) adjudging that there were deficiencies in income and excess profits taxes for the years ended June 30, 1941, and June 30, 1942, as previously stated upon the first page of this opening brief for petitioner. [Tr. pp. 68-69.]

### **Specification of Errors.**

Petitioner specifies the following errors upon which it will rely in the prosecution of this appeal from the judgment of The Tax Court of the United States made and entered upon the 30th day of July, 1947. Petitioner specifies that The Tax Court of the United States erred in each of the following particulars [Tr. pp. 165-166]:

(1) The Tax Court of the United States erred in failing to allow as a deduction under Section 23 (a) (1) (A), Internal Revenue Code, as reasonable compensation for services rendered by its two officers any amount in excess of the regular salaries paid each year in the total amount of \$24,000.00 plus proceeds from the scrap sales.

(2) The Tax Court erred in holding that the payments of the bonuses to the two officers in the total amount of \$10,000.00 for each year were in the nature of dividend distributions on stock and not deductible by petitioner as

ordinary and necessary expenses under Section 23 (a) (1) (A) of the Internal Revenue Code.

(3) The Tax Court erred in finding that there were deficiencies for the taxable years ended June 30, 1941, and June 30, 1942, in lieu of a determination that there were no income taxes, declared value excess-profits taxes and excess profits taxes due from the petitioner for the two years in controversy.

(4) The Tax Court erred in declining to grant petitioner's motion to vacate and set aside the memorandum, findings of fact, and opinion on the grounds that The Tax Court had not complied with the provisions of the Administrative Procedure Act. (Chapter 324, Public Law 404.)

(5) There was no substantial evidence to justify the findings of The Tax Court within the provisions of the Administrative Procedure Act, and more particularly Section 10 (e) of said Act.

(6) The Tax Court erred in not giving full faith and credit to the resolution of the Board of Directors of petitioner, adopted at the regular meeting of said Board on June 11, 1941, voting bonuses of \$5,000 each to the two officers of petitioner.

(7) The Tax Court erred in declining to give proper weight to the testimony of Charles N. Miller with respect to the reasonableness of the compensation paid by petitioner to its two principal officers.

## ARGUMENT.

### I.

**The Tax Court of the United States Erred in Failing to Allow as a Deduction Under Section 23 (a) (1) (A), Internal Revenue Code, as Reasonable Compensation for Services Rendered by Its Two Officers Any Amount in Excess of the Regular Salaries Paid Each Year in the Total Amount of \$24,000.00 Plus Proceeds From the Scrap Sales.**

Section 23 (a) (1) (A) states as follows, in part:

“Section 23. In computing net income there shall be allowed as deductions: (a) (1) (A) all the ordinary and necessary expenses paid and incurred in the taxable year in carrying on any trade or business including a reasonable allowance for salaries or other compensation for personal services actually rendered;”

Section 29, 23(a)-6, Regulations of the Commissioner of Internal Revenue, states:

“(3) In any event the allowance for the compensation paid may not exceed what is reasonable under all the circumstances. It is in general just to assume that reasonable and true compensation is only such amount as would ordinarily be paid for like services by like enterprises under like circumstances.”

In the *Dobson* case, 320 U. S. 489, the Supreme Court stated:

“\* \* \* Congress has invested the Tax Court with primary authority for redetermining deficiencies, which constitutes the greater part of tax litigation. This requires it to consider both law and facts. Whatever latitude exists in resolving questions such

as those of proper accounting, treating a series of transactions as one for tax purposes, or treating apparently separate ones as single in their tax consequences, exists in the Tax Court and not in the regular courts; when the court cannot separate the elements of a decision so as to identify a clear-cut mistake of law, the decision of the Tax Court must stand. In view of the division of functions between the Tax Court and reviewing courts it is of course the duty of the Tax Court to distinguish with clarity between what it finds as fact and what conclusion it reaches on the law. In deciding law questions courts may properly attach weight to the decision of points of law by an administrative body having special competence to deal with the subject matter. The Tax Court is informed by experience and kept current with tax evolution and needs by the volume and variety of its work. While its decisions may not be binding precedents for courts dealing with similar problems, uniform administration would be promoted by conforming to them where possible."

And in *Bingham v. Commissioner*, 325 U. S. 365, the Supreme Court appears to have further extended the finality of the decisions of The Tax Court.

However, the Sixth Circuit Court in *Capitol-Barg Dry Cleaning Co. v. Commissioner*, 131 F. (2d) 712, reversed the Board of Tax Appeals in a case involving the reasonableness of compensation under Section 23 of the Internal Revenue Code. This case was decided before the *Dobson* case, which established the so-called "Dobson rule." However, the Sixth Circuit in its opinion in *Estate of Kroger v. Commissioner*, 145 F. (2d) 901, stated as follows:

"True it is, as pointed out by appellants, that this Court in *Capitol-Barg Dry Cleaning Co. v. Commis-*

*sioner of Internal Revenue*, 131 Fed. (2d) 712, held that convincing testimony before the Board of Tax Appeals may not be arbitrarily disregarded. We adhere to the doctrine. The decision of the Tax Court, being deemed 'contrary to the indisputable character of the evidence', was reversed. But the facts of that case bear no remote similarity to those found here."

The Sixth Circuit then goes on to discuss the *Dobson* case. That Court undoubtedly meant to state that its decision in the *Capitol-Barg* case would have been the same even had the *Dobson* case opinion of the Supreme Court been rendered prior to the decision of the Sixth Circuit Court in the *Capitol-Barg* case.

Therefore, it can be said that there can exist a case involving the reasonableness of salary issue upon which The Tax Court could be reversed by a Circuit Court. Anyone reading the statement of facts as given in the findings of fact of The Tax Court would, petitioner believes, arrive at the conclusion that the officers of petitioner, Hayek and Kennedy, were very reasonably compensated for the years 1941 and 1942, as compared with prior years. The net sales of taxpayer showed a great increase, net income before Federal taxes and net profit after Federal taxes showed very large increases, petitioner officers worked much longer hours in 1941 and 1942 than theretofore, and their business was subject to much more rigid inspection. [Tr. p. 38.]

It is difficult in reading the opinion of The Tax Court to follow the reasoning by which that board found that \$12,000 per year plus the scrap sales was all that could



be allowed as reasonable compensation to the officers for the years 1941 and 1942. The Tax Court said:

“There is no doubt that both Hayek and Kennedy worked long hours during the tax years here involved and were very competent in the line of work in which petitioner was engaged, but only about two months prior to the beginning of the tax years here involved their regular salaries were substantially increased up to \$12,000 per annum for each officer. This represented an increase of more than 59% over the preceding year. For the reasons previously given and the fact that no dividends were declared since June 30, 1938, we think that \$12,000 a year for each officer plus the scrap sales is all that can reasonably be allowed as deductions under Section 23 (a) (1) (A), *supra*, for the taxable years here in question.”

It appears that The Tax Court decision on the reasonableness of these salaries was predicated on the fact that two salary increases came too close together and that no dividends had been declared since June 30, 1938. As a matter of law, petitioner contends that the decision of The Tax Court was improper under Section 23 (a) (1) (A) of the Internal Revenue Code. The said section contains no limit upon the number of salary increases that may be attained during a given period nor does it say anything about dividend declarations.

Taxpayers, of course, have the burden of proving reasonableness of salaries. The taxpayer, in addition to submitting statistical data for earnings, presented the testimony of a disinterested and competent witness, Charles W. Miller, which was uncontradicted, and The Tax Court cannot arbitrarily disregard such evidence. (*Capitol-Barg* case, *supra*.) This case is a very similar one to that of *Capitol-Barg Dry Cleaning Co.*



II.

**The Tax Court Erred in Holding That the Payments of the Bonuses to the Two Officers in the Total Amount of \$10,000.00 for Each Year Were in the Nature of Dividend Distributions on Stock and Not Deductible by Petitioner as Ordinary and Necessary Expenses Under Section 23 (a) (1) (A) of the Internal Revenue Code.**

The minutes of the regular meeting of the board of directors of petitioner held on June 11, 1941, provided in part as follows:

“On motion of W. J. Kennedy, seconded by D. R. Koelling, a bonus of \$5000 was voted to Jos. W. Hayek and W. J. Kennedy.” [Tr. p. 38.]

In its opinion The Tax Court, in denying that the foregoing bonuses were in reality dividends in disguise, cited Section 19.23 (a)-6 of Treasury Regulations 103, which gives the following illustration [Tr. p. 55]:

“\* \* \* An ostensible salary paid by a corporation may be a distribution of a dividend on stock. This is likely to occur in the case of a corporation having few shareholders, practically all of whom draw salaries. If in such a case the salaries are in excess of those ordinarily paid for similar services, and the excessive payments correspond or bear a close relationship to the stockholdings of the officers or employees, it would seem likely that the salaries are not paid wholly for services rendered, but that the excessive payments are a distribution of earnings upon the stock.”

It is true that like regulations have been held to be fair interpretations of the Congressional intention. (*H. Levine and Bros., Inc., v. Commissioner*, 101 F. (2d) 391.)

However, petitioner directs the attention of the Court to the fact that Hayek and Kennedy divided equally the responsibilities of the company management as shown in the findings of fact and it is only logical to assume that equal salaries to each man and equal bonuses to each man might well have been paid although neither man owned any stock in petitioner corporation whatever.

The Tax Court in its opinion lays great stress on the fact that petitioner paid no dividends since the fiscal year ending June 30, 1938, and increased the compensation of the officers at two different times. [Tr. p. 56.] Petitioner contends that these facts alone cannot support the decision of The Tax Court unless there is something more in the way of evidence to warrant its conclusions. The record fails to disclose such evidence.

### III.

**The Tax Court Erred in Finding That There Were Deficiencies for the Taxable Years Ended June 30, 1941, and June 30, 1942, in Lieu of a Determination That There Were No Income Taxes, Declared Value Excess Profits Taxes and Excess Profits Taxes Due From the Petitioner for the Two Years in Controversy.**

Had The Tax Court found that the total compensation paid to the two officers of petitioner was reasonable for the years 1941 and 1942, there would have been no deficiency in income tax for the years June 30, 1941, to June 30, 1942. This allegation is simply one that must be supported by the other points of taxpayer on appeal.

IV.

**The Tax Court Erred in Declining to Grant Petitioner's Motion to Vacate and Set Aside the Memorandum, Findings of Fact, and Opinion on the Grounds That The Tax Court Had Not Complied With the Provisions of the Administrative Procedure Act. (Chapter 324, Public Law 404.)**

The Administrative Procedure Act, which became law on June 11, 1946, was intended to have broad coverage, and such exceptions as it recognizes are in terms of functions rather than agencies as such.

The Administrative Procedure Act is concerned with administrative agencies. Section 2 (a) of the Act defines "agency" to mean:

"each authority (whether or not within or subject to review by another agency) of the Government of the United States other than Congress, the courts, or the governments of the possessions, Territories, or the District of Columbia."

The Tax Court is accordingly subject to the Act if it is an "agency," but not if it is a "court," as those terms are used in this definition.

The Tax Court's predecessor, The Board of Tax Appeals, was created by the Revenue Act of 1924, as "an independent agency in the executive branch of the Government." The Internal Revenue Code, when enacted, described the board in the same way. (I. R. C., Sec. 1100.)

The Supreme Court in *Old Colony Trust Co. v. Commissioner*, 279 U. S. 716, 725, said:

"The Board of Tax Appeals is not a court. It is an executive or administrative board, upon the decision of which the parties are given an opportunity to base a petition for review to the courts after the

administrative inquiry of the board has been had and decided.”

Section 504 of the Revenue Act of 1942 effected the change of the name of The Board of Tax Appeals to The Tax Court of the United States. The Committee Report (H. R. Rept. No. 2333, 77th Congress, 2d Session, pp. 172, 173), explaining Section 504, says:

“This section merely changes the names by which the Board of Tax Appeals, its chairman and its members, are known. No change is made in its status. The Board, which will hereinafter be known as The United States Tax Court, is continued as an independent agency in the executive branch of the Government. Thus its status as an executive or administrative board is unchanged. *Old Colony Trust Co. v. Commissioner*, 279 U. S. 716, 725. The Board and its divisions will continue to have the same jurisdiction, powers, and duties as provided by existing law.”

In *Commissioner v. Gooch*, 320 U. S. 418, 420, the Supreme Court pointed out that the Board's change of name to Tax Court had no effect on the jurisdiction, powers and duties of the agency.

Since The Tax Court is an agency rather than a court, it would seem to follow that, like other agencies, it is subject to the Administrative Procedure Act.

Had the name of the Board of Tax Appeals remained unchanged it would seem beyond dispute that the Administrative Procedure Act applied to it. The change of name did not make the tribunal any less an agency or otherwise effect its functions.

The Sixth Circuit Court in *Lincoln Electric Co. v. Commissioner*, *supra*, stated that the permissible scope of review would be fixed by the Administrative Procedure

Act rather than by the *Dobson* ruling since it found The Tax Court to be an agent subject to the Act. The Appellate Court found it unnecessary on the facts before it, however, "to particularize in what respect our power to review has been enlarged except to say that it doubtless has been broadened, and it will be time enough to consider the precise application of the Act when clear cut questions of fact and law are brought to us for review." In *Dawson v. Commissioner*, 163 F. (2d) 664, decided September 22, 1947, the Sixth Circuit Court reaffirmed what it had said in the *Lincoln Electric* case with respect to the Administrative Procedure Act.

If the Sixth Circuit Court is correct in its conclusion with respect to the Administrative Procedure Act, petitioner's motion to vacate and set aside the memorandum, findings of fact and opinion should have been granted. It is true that petitioner in his brief was given an opportunity to submit proposed findings of fact and conclusions but petitioner was not given an opportunity to submit his objections and exceptions pursuant to Section 8 (b) of the Administrative Procedure Act. Section 8 (b) of the Administrative Procedure Act contains a provision to the effect that prior to each recommended initial decision, the parties shall be afforded reasonable opportunity to submit for the consideration of the officials participating in such decisions "(2) exceptions to the decisions or recommended decisions of subordinate officers or to tentative decisions, and (3) supporting reasons for such exceptions." Petitioner was given no opportunity to submit its exceptions to the proposed decision of The Tax Court, as is provided for by Section 8 (b) of the Administrative Procedure Act. Petitioner's motion to vacate and set aside the memorandum, findings of fact and opinion should have been granted.



V.

**There Was No Substantial Evidence to Justify the Findings of The Tax Court Within the Provisions of the Administrative Procedure Act, and More Particularly Section 10 (e) of Said Act.**

The scope of review as provided by Section 10 (e) of the Administrative Procedure Act provides:

“So far as necessary to decision and where presented the reviewing court shall decide all irrelevant questions of law, interpret constitutional and statutory provisions, and determine the meaning or applicability of the terms of any agency action.”

It shall hold unlawful and set aside any agency action

“(5) unsupported by substantial evidence in any case subject to the requirements of Sections 7 and 8 or otherwise provided in the record of the agency hearing provided by statute.”

Said section further provides that

“in making the foregoing determinations the court shall review the whole record or such portions thereof as may be cited by any party, and due account shall be taken of the rule of prejudicial error.”

In discussing the substantial evidence requirement, the report of the House Judiciary Committee stated:

“‘Substantial evidence’ means evidence which on the whole record is clearly substantial, plainly sufficient to support a finding or conclusion under the requirements of section 7(c), and material to the issues. It is exceedingly important. Difficulty has come out by the practice of agencies and courts to rely upon something less—suspicion, surmise, implications, or plainly incredible evidence. Although the



agency must do so in the first instance, under this bill it will be *the duty of the court to determine in the final analysis and in the exercise of their independent judgment* whether on the whole of the proofs brought to their attention the evidence in a given instance is sufficiently substantial to support a finding, conclusion, or other agency action or inaction. In reviewing a case under this fifth category the court must base its judgment upon its own review of the entire record or so much thereof as may be cited by any party." (Emphasis supplied.)

Senate Document No. 248, 79th Congress, 2d Session, p. 270.

Section 10 (e) (5) is a forceful adoption of the opinion that substantial evidence is "more than a mere scintilla." (Supreme Court in *Consolidated Edison Co. v. NLRB*, 305 U. S. 209, 229.) Clearly, under this subsection, the functions of the reviewing court are not limited to a mere search of the record to see if the burden of evidence lacks any iota of reliable evidence. Instead courts will be required to base their judgment on review of the entire record or so much of it as may be cited by any party. Affirmance of agency action that is supported only tenuously by the record is foreclosed.

In the Senate proceedings of March 12, 1946, relating to the Administrative Procedure Act (Senate Document No. 248, 79th Congress, 2d Session), the following explanation of Section 10 (e) of the Administrative Procedure Act was furnished by Senator McCarran, Chairman of the Senate Judiciary Committee:

"Mr. Ferguson: Mr. President, will the Senator yield?

Mr. McCarran: I yield.

Mr. Ferguson: Would the Senator, then, say that the judgment or decision of the agency must be based upon stronger proof than a scintilla of evidence?

Mr. McCarran: Very much stronger.

Mr. Ferguson: The old rule which applied in the courts, particularly on certiorari, was that if there was any evidence to sustain the verdict or judgment, it should be sustained. The courts have many times so held. The Senator would say, would he not, that something more than 'any evidence' is required to sustain such a decision.

Mr. McCarran: The answer is in the affirmative. We say that the evidence must be substantial probative evidence.

Mr. Ferguson: So we are changing the rule which has been applied in the past that any evidence, or a scintilla of evidence, as it is sometimes defined, is sufficient to sustain a verdict or judgment.

Mr. McCarran: We tried as best we could to establish a guide for administrative groups so that they would apply the rule in such a way that there would be substantial probative evidence behind their findings, and so that they could say 'We are not afraid to have our findings reviewed by a court.'

Mr. George: Mr. President, will the Senator yield?

Mr. McCarran: I yield.

Mr. George: The courts have many times held that if there is any evidence to sustain the finding of an administrative board under the statute, the courts have no power to intervene. If this bill should become a law would that rule, as heretofore construed by the courts, remain in effect?

Mr. McCarran: The courts have given various constructions. The courts, in reviewing an order, are governed by the provisions of section 10(e), which states the substantial-evidence rule. In other words, in some instances the courts have held that there must be substantial evidence. We are saying that there must be probative evidence of a substantial nature, and that even though the commission or bureau may take hearsay evidence in its hearings, it must have some probative evidence to sustain its finding.

Mr. George: The point I wish to raise is that some of the acts of Congress, particularly those enacted in recent years, have led the courts to hold—and they so hold—that if there be any evidence to sustain the finding of a board or agency, the court has no power to interfere with it.

Mr. McCarran: I would put it in this way—

Mr. George: Would the enactment of this bill require some substantial or probative evidence to support such a finding?

Mr. McCarran: Yes.

Mr. George: Take the labor relations cases. Senators are familiar with them. The circuit courts have frequently complained against what the Labor Relations Board did, but have said, 'We are powerless to interfere with it.' Would this bill change that rule, if the court were of the opinion that there was no probative evidence?

Mr. McCarran: Yes, it would change that rule.

Mr. George: I am pleased to hear it.

Mr. McCarran: I thank the Senator." (Appendix B—Proceedings in Congress—Administrative Procedure—Commerce Clearing House, Inc. Pages 189-190.)

Even under the *Dobson* rule, The Tax Court's conclusion must have substantial evidence to support it. "Hunches" or "intuition" will not suffice. The Tax Court may not reach a conclusion solely by its intuitive powers."

*Estate of Lueders v. Commissioner*, ..... F. (2d)  
....., Oct. 16, 1947 (C. C. A. 3rd).

The Tax Court in this case has used its intuitive powers to determine that when petitioner's board of directors voted a bonus of \$5,000 to each of its two principal officers for the years 1941 and 1942, that said board of directors and officers did not intend these amounts to be a bonus but were actually declaring dividends under another guise. The Tax Court bases this premise apparently purely upon the fact that "only about two months prior to the taxable year here involved their regular salaries were substantially increased up to \$12,000 for each officer. This represented an increase of 59% over the preceding year. For the reasons previously given and the fact that no dividends as such were declared since June 30, 1938, we think that \$12,000 a year for each officer plus the scrap sales is all that can reasonably be allowed as deductions (23 (a) (1) (A), *supra*) for the taxable years here in question."

Clearly The Tax Court bases its decision upon its own intuitive powers and not upon any facts found in the evidence. The evidence all supports the reasonableness of the salaries of the officers, Kennedy and Hayek, for the years 1941 and 1942.

VI.

**The Tax Court Erred in Not Giving Full Faith and Credit to the Resolution of the Board of Directors of Petitioner, Adopted at the Regular Meeting of Said Board on June 11, 1941, Voting Bonuses of \$5,000 Each to the Two Officers of Petitioner.**

The by-laws of petitioner empowered the board of directors to appoint and remove all officers of the company, prescribe their duties and fix their compensation. [Tr. p. 38.]

The minutes of the regular meeting of the board of directors of petitioner held on June 11, 1941, provide in part as follows:

“On motion of W. J. Kennedy, seconded by D. R. Koelling, a bonus of \$5,000 was voted to W. J. Kennedy and Jos. W. Hayek.” [Tr. p. 38.]

The Treasury Regulation covering bonuses reads as follows:

“Bonuses to employees will constitute allowable deductions from gross income when such payments are made in good faith and as additional compensation for services actually rendered by employees, provided such payments, when added to the stipulated salaries, do not exceed a reasonable compensation for the services rendered. It is immaterial whether such bonuses are paid in cash or in kind or partly in cash and partly in kind. Donations made to employees and others, which do not have in them the element of compensation or are in excess of reasonable compen-

sation for services, are not deductible from gross income.” (Sec. 29.23 (a)-8, Reg. 111.)

There is nothing in the record to support a statement that the bonuses paid by petitioner to its officers were not made in good faith and as additional compensation for services actually rendered. In *Capitol-Barg Dry Cleaning Company v. Commissioner of Internal Revenue, supra*, the Court said as follows:

“The facts, apart from opinion evidence, are uncontroverted and as indicated in the memorandum opinion of the board were fully accepted by it. But the board did not give full faith and credit to the resolution of November 30, 1936, by which the claimed allowances were authorized. This resolution created the inference that the salary allowances were reasonable. *Toledo Grain & Milling Co. v. Commissioner*, 62 Fed. (2d) 171; *Ox Fibre Brush Co. v. Blair*, 32 Fed. (2d) 42.”

The Tax Court failed to give full weight and credit to the actions of the directors in voting the bonuses to officers of petitioner.



VII.

**The Tax Court Erred in Declining to Give Proper Weight to the Testimony of Charles W. Miller With Respect to the Reasonableness of the Compensation Paid by Petitioner to Its Two Principal Officers.**

In discussing the testimony of Charles W. Miller, The Tax Court said in its statements of fact [Tr. pp. 40-41]:

“During the years 1941 and 1942 there were only two or three firms besides petitioner in the name plate business in the Los Angeles area. The principal competitor of petitioner in the Los Angeles area was Miller Dial & Nameplate Company. During the years 1941 and 1942 Miller Dial & Nameplate Company was a partnership composed of two brothers, Charles W. Miller and John Dawson Miller. The duties of Charles in the partnership were very similar to those of Hayek in petitioner. The sales of Miller Dial & Nameplate Company for the calendar year 1941 were approximately \$156,000 and for the calendar year 1942 they were approximately \$338,000. No salaries were paid to the partners in Miller Dial & Nameplate Company for the year 1941; the partners simply made withdrawals as needed. For the year 1942 the salary of Charles was \$24,000 and that of John was \$18,000.”

In commenting upon the testimony of Charles W. Miller, The Tax Court said:

“Petitioner in its briefs contends that considerable weight should be given to the testimony of Charles W. Miller, one of the partners of Miller Dial & Nameplate Company. The latter company was the principal competitor of petitioner in the Los Angeles area. During 1942, this competitor paid its two part-

ners total salaries of \$42,000. Miller's testimony can not be given the weight for which petitioner contends for the reason that during the years 1941 and 1942 Miller Dial & Nameplate Company was a partnership and not a corporation. As a partnership it could easily distribute all of its earnings in the form of salaries to its partners without being questioned by the taxing authorities. That is not true in the case of corporations where consideration must be given to whether the payments are in fact purely for services actually rendered and whether they were reasonable under all the circumstances. *Cf. Woodcliff Silk Mills, 1 B. T. A. 715.*" [Tr. pp. 57-58.]

The Tax Court declined to admit the testimony of Carlisle John Thorson, a corporation adviser, generally familiar with salaries of industrial corporations, but not having a knowledge and familiarity with the nameplate business. [Tr. pp. 152 and 153.] The Tax Court having limited petitioner with respect to expert testimony on the question of salaries to the testimony of persons in the nameplate business, petitioner was naturally very limited in presenting expert testimony for the reason that there was only one nameplate company of comparable size in the Los Angeles area. For this reason petitioner avers that great weight should be given to the testimony of Charles W. Miller. The Tax Court appears to have given little weight to his testimony for the reason that his firm was a partnership and not a corporation. Surely this would not disqualify Mr. Miller as to his knowledge as to what might constitute a reasonable salary to an officer of

a nameplate company. Mr. Miller testified that \$20,000 per year would be a reasonable salary for the services of Mr. Kennedy and \$20,000 would be a reasonable salary for the services of Mr. Hayek for the year ended June 30, 1941. [Tr. pp. 139-140.] He testified that \$25,000 each would be a reasonable salary for the two men for the year ended June 30, 1942. [Tr. p. 141.]

In *Capitol-Barg Dry Cleaning Co. v. Commissioner*, *supra*, the Court said in discussing the testimony of expert witnesses:

“Their competency was not questioned. Their integrity was not attacked. They were not discredited in any manner known to the law and no color, bias, prejudice or self-interest appears in their testimony. Their testimony was unimpeached and should have been accepted by the Board in a matter in which the Board itself had no knowledge or experience upon which it could exercise an independent judgment. Where the testimony before the Board ought to have been convincing it may not arbitrarily be disregarded.”

The experts referred to were the President and Treasurer of the largest retail dry cleaning concern in Cincinnati and the Executive Secretary of the Ohio State Association of Dyers and Cleaners. These witnesses were familiar with the business of the Capitol-Barg Dry Cleaning Co. in a general way and with the industry in general. The same might be said of petitioner's witness, Charles W. Miller.

RELIEF SOUGHT.

The decision of The Tax Court should be reversed as not in accordance with the law or as unsupported by the evidence, or, in the alternative, the decision should be reversed and the case remanded to The Tax Court of the United States for such other and necessary procedure under the Administrative Procedure Act as the case may require.

Respectfully submitted,

PRESTON D. OREM,

*Attorney for Petitioner.*



No. 11804

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**In the United States Circuit Court of  
Appeals for the Ninth Circuit**

**KENNEDY NAME PLATE COMPANY, A CORPORATION, PETITIONER,**

*v.*

**COMMISSIONER OF INTERNAL REVENUE, RESPONDENT**

---

**ON PETITION FOR REVIEW OF THE DECISION OF THE TAX  
COURT OF THE UNITED STATES**

---

**BRIEF FOR THE RESPONDENT**

---

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**FILED**

**MAR 3 1948**

**PAUL P. O'BRIEN,**  
**CLERK**





# INDEX

	Page
Opinion below .....	1
Jurisdiction .....	1
Question presented .....	2
Statute and Regulations involved .....	2
Statement .....	2
Summary of argument .....	8
Argument:	
The Tax Court's findings as to the amounts in question which constituted unreasonable compensation paid as bonuses to the taxpayer's officers are supported by substantial evidence and should therefore be sustained .....	9
Conclusion .....	26
Appendix .....	27

## CITATIONS

### Cases:

<i>Am-Plus Storage B. Co. v. Commissioner</i> , 35 F. 2d 167 .....	12, 19
<i>Atlas Plaster &amp; Fuel Co. v. Commissioner</i> , 55 F. 2d 802 .....	12, 23
<i>Becker Bros. v. United States</i> , 7 F. 2d 3 .....	15
<i>Bingham, Trust of v. Commissioner</i> , 325 U. S. 365 .....	
<i>Boehm v. Commissioner</i> , 326 U. S. 287, rehearing denied, 326 U. S. 811 .....	11, 12
<i>Botany Mills v. United States</i> , 278 U. S. 282 .....	12
<i>Botchford v. Commissioner</i> , 81 F. 2d 914 .....	12
<i>Bridges-Smith Co. v. Glenn</i> , decided March 18, 1939, affirmed, 116 F. 2d 934 .....	20
<i>Capitol-Barg Dry Clean. Co. v. Commissioner</i> , 131 F. 2d 712 .....	22
<i>Chattanooga Sav. Bank v. Brewer</i> , 17 F. 2d 79, certiorari denied, 274 U. S. 751 .....	19
<i>Clinton Co. v. Commissioner</i> , 159 F. 2d 102 .....	11, 20
<i>Commissioner v. Court Holding Co.</i> , 324 U. S. 331 .....	11
<i>Commissioner v. Flowers</i> , 326 U. S. 465, rehearing denied, 326 U. S. 812 .....	11
<i>Commissioner v. Heininger</i> , 320 U. S. 467 .....	11
<i>Commissioner v. Scottish American Co.</i> , 323 U. S. 119 .....	11, 24
<i>Commissioner v. Sussman</i> , 102 F. 2d 919 .....	24
<i>Credit Bureau of Greater N. Y. v. Commissioner</i> , 162 F. 2d 7 .....	25
<i>Crescent Bed Co. v. Commissioner</i> , 133 F. 2d 424 .....	11
<i>Dawson v. Commissioner</i> , 163 F. 2d 664 .....	23

## II

Cases—Continued	Page
<i>Dobson v. Commissioner</i> , 320 U. S. 489, rehearing denied, 321 U. S. 231 .....	11, 24
<i>Doernbecher Mfg. Co. v. Commissioner</i> , 95 F. 2d 296 .....	22
<i>Drawoh, Inc. v. Commissioner</i> , 28 B.T.A. 666, dismissed, 74 F. 2d 1012 .....	19
<i>Freeman-Hampton Oil Corp. v. Commissioner</i> , 65 F. 2d 456 ..	24
<i>General Water Heater Corp. v. Commissioner</i> , 42 F. 2d 419 ...	22
<i>Gray, William S., &amp; Co. v. United States</i> , 35 F. 2d 968 ...	10, 12, 20
<i>Hecht v. United States</i> , 54 F. 2d 968, certiorari denied, 286 U. S. 560 .....	11
<i>Heflin, R. L., Inc. v. United States</i> , 58 F. 2d 482, certiorari denied, 287 U. S. 631 .....	19
<i>Helvering v. Kehoe</i> , 309 U. S. 277 .....	11, 24
<i>Helvering v. Superior Wines &amp; Liquors</i> , 134 F. 2d 373 .....	11
<i>Jankowsky v. Commissioner</i> , 56 F. 2d 1006 .....	24
<i>Kelley, John, Co. v. Commissioner</i> , 326 U. S. 521 .....	11
<i>Lawton v. Commissioner</i> , 165 F. 2d 380 .....	25
<i>Levine, H., &amp; Bros. v. Commissioner</i> , 101 F. 2d 391 .....	19
<i>Lincoln Electric Co. v. Commissioner</i> , 162 F. 2d 379 .....	23
<i>Long Island Drug Co. v. Commissioner</i> , 111 F. 2d 593, certiorari denied, 311 U. S. 680 .....	11, 20
<i>Marble &amp; Shattuck Chair Co. v. Commissioner</i> , 39 F. 2d 393 ...	12, 19
<i>Mayers, L. &amp; C., Co. v. Commissioner</i> , decided November 3, 1941 .....	11, 12, 14
<i>Mayers, L. &amp; C., Co. v. Commissioner</i> , 131 F. 2d 309, certiorari denied, 318 U. S. 773 .....	14, 18
<i>McCarthy v. Commissioner</i> , 139 F. 2d 20 .....	23
<i>Miller, Anthony P., Inc. v. Commissioner</i> , 164 F. 2d 268 .....	11
<i>Miller Mfg. Co. v. Commissioner</i> , 149 F. 2d 421 .....	11, 21
<i>Phillips v. Commissioner</i> , 283 U. S. 589 .....	11
<i>Pinkham, L. E., Med. Co. v. Commissioner</i> , 128 F. 2d 986, certiorari denied, 317 U. S. 675 .....	10, 13
<i>Rae's Estate, In re</i> , 147 F. 2d 204 .....	11, 12
<i>Rubel v. Commissioner</i> , 74 F. 2d 27 .....	24
<i>Skenandoa Rayon Corp. v. Commissioner</i> , 122 F. 2d 268, certiorari denied, 314 U. S. 696 .....	24
<i>Sunset Scavenger Co. v. Commissioner</i> , 84 F. 2d 453 .....	10, 12
<i>Todd v. Commissioner</i> , 153 F. 2d 553 .....	24
<i>Tonopah Mining Co. v. Commissioner</i> , 127 F. 2d 239 .....	24
<i>Tracy v. Commissioner</i> , 53 F. 2d 575 .....	11
<i>Trimyer, H. L., &amp; Co. v. Noel</i> , 28 F. 2d 781 .....	15
<i>Tumwater Lumber Mills Co. v. Commissioner</i> , 65 F. 2d 675 ...	12, 19
<i>Twin City Tile &amp; M. Co. v. Commissioner</i> , 32 F. 2d 229 .....	12, 19
<i>Wagner, E., &amp; Son v. Commissioner</i> , 93 F. 2d 816 .....	10, 12
<i>Walts, Inc. v. Commissioner</i> , decided January 17, 1947 .....	20
<i>Welch v. Helvering</i> , 290 U. S. 111 .....	14
<i>Westmoreland Specialty Co. v. Burnet</i> , 57 F. 2d 615, certiorari denied, 287 U. S. 609 .....	10

### III

Cases—Continued	Page
<i>Wilmington Co. v. Helvering</i> , 316 U. S. 164 .....	11
<i>Woodcliff Silk Mills v. Commissioner</i> , 1 B.T.A. 715 .....	20
<i>Statutes:</i>	
Administrative Procedure Act, c. 324, 60 Stat. 237:	
Sec. 2 .....	25
Sec. 5 .....	25
Sec. 8 .....	25
Sec. 10 .....	25
Internal Revenue Code:	
Sec. 23 (26 U.S.C. 1940 ed., Sec. 23) .....	
Secs. 1100-1121 (26 U.S.C. 1940 ed., Secs. 1100-1121) ....	25
Secs. 1141-1142 (26 U.S.C. 1940 ed., Secs. 1141-1142) ....	25
<i>Miscellaneous:</i>	
Treasury Regulations 103:	
Sec. 19.23 (a)-1 .....	27
Sec. 19.23 (a)-6 .....	27
Sec. 19.23 (a)-7 .....	20
Sec. 19.23 (a)-8 .....	28



**In the United States Circuit Court of  
Appeals for the Ninth Circuit**

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No. 11804

KENNEDY NAME PLATE COMPANY, A CORPORATION, PETITIONER,

*v.*

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

---

*ON PETITION FOR REVIEW OF THE DECISION OF THE TAX  
COURT OF THE UNITED STATES*

---

**BRIEF FOR THE RESPONDENT**

---

**OPINION BELOW**

The memorandum findings of fact and opinion of the Tax Court (R. 31-65) are not reported.

**JURISDICTION**

The petition for review herein (R. 69-74) involves deficiencies in income taxes, declared value excess profits taxes, and excess profits taxes in the aggregate sum of \$12,279.94 for the taxable years ended June 30, 1941, and June 30, 1942, as asserted by the Commissioner in notice of deficiency mailed to the taxpayer on September 21, 1944 (R. 16-29, 68-69). Within ninety days thereafter and on December 11, 1944, the taxpayer filed a petition with the Tax Court of the United States for redetermination of those deficiencies

(I)



under the provisions of Section 272 of the Internal Revenue Code. (R. 2, 4-29.) The taxpayer's motion to vacate and set aside the Tax Court's memorandum findings of fact and opinion filed on June 20, 1947 (R. 66-67), was denied by the Tax Court's order entered July 14, 1947 (R. 68), and the final order and decision of the Tax Court partially sustaining the deficiencies in question was entered on July 30, 1947 (R. 68-69). The case is brought to this Court by the taxpayer's petition for review filed November 3, 1947 (R. 69-74), pursuant to the provisions of Sections 1141-1142 of the Internal Revenue Code.

#### QUESTION PRESENTED

Whether there was substantial evidence to support the Tax Court's finding that the bonuses paid the taxpayer's two officers in proportion to their stockholdings were not, when considered together with their regular salaries and other compensation paid them, reasonable compensation for personal services rendered, within the meaning of the statute.

#### STATUTE AND REGULATIONS INVOLVED

The statute and Regulations involved will be found in the Appendix, *infra*.

#### STATEMENT

The facts pertaining to the issue involved herein were found by the Tax Court as follows (R. 34-41):<sup>1</sup>

The taxpayer is a corporation. It was incorporated under the laws of the State of California on August 19, 1923, and has its principal office and place of business in the City of Los Angeles. It filed its corporation income and excess profits tax returns for the fiscal years ended June 30, 1941, and June 30, 1942, with the Collector for the Sixth Collection District of Los Angeles. (R. 34.)

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<sup>1</sup> The facts found by the Tax Court in respect to another issue not involved herein (R. 41-52, 59-65) have been omitted from the Statement.

Joseph W. Hayek has been in the name plate business since 1907. From 1907 to 1917 he either managed name plate companies or the name plate departments of various companies. In 1917 he started a name plate business in Minneapolis, Minnesota, under the name of Hayek Nameplate & Novelty Company. In 1921 he sold this business to William James Kennedy and Kennedy's uncle. Kennedy and his uncle moved the business to Los Angeles, California, and began to operate it as a partnership under the name of Kennedy Nameplate Company. Hayek originally became an employee of the partnership and had charge of the production end of the business. Soon thereafter Kennedy's uncle sold his 50% interest in the partnership to Hayek and in 1923 Hayek and Kennedy organized the taxpayer herein. The business of the partnership was transferred to the taxpayer in exchange for the latter's stock. From the time of organization to and through the taxable years here involved Hayek has been the president and a director of the taxpayer and Kennedy has been the secretary-treasurer and a director. Both men have devoted their entire time to the taxpayer's business and have engaged in no outside business activities. (R. 35.)

At the time the taxpayer was organized it issued 1,251 shares of its stock to Hayek, 1,251 shares to Kennedy and 1 share to a Mr. Frank who became a director along with Hayek and Kennedy. The taxpayer had only three directors. Frank was later succeeded by D. R. Koelling who then became the third director. The stock had a par value of \$10 per share. During the taxable years here in question the stock that was issued to Hayek was owned by him as his separate property and the stock that was issued to Kennedy was either owned by him as his separate property or by him and his wife, Alice L. Kennedy, as community property. (R. 35-36.)

Kennedy was employed by various companies in New York

City, Chicago, and in South America from 1912 to 1921 when he first engaged in the name plate business. He had had quite extensive experience as an executive and manager and in sales promotion both in the United States and in South America. (R. 36.)

From the time that the taxpayer was organized to and through the taxable years here involved Hayek and Kennedy divided the important managerial functions of taxpayer's business between them. Hayek was in complete charge of production, supervising the work of men employed in several different trades including art, die making, engraving, photography, etching, plating, lithography, decalcomania manufacture and punch press operations. He also employed a portion of the technical personnel. He perfected many new processes and techniques including a new method for camera work, the elimination of certain etching and lithographic operations, die making improvements, new engraving methods, new chemical solutions and new uses for chemical solutions, new processes for plastics and fibre, fluorescent plates and many others. He and Kennedy together devised a new type of conveyor to operate under a bank of infra red light which has been quite successful. Kennedy was in complete charge of all departments and activities of the taxpayer except production, including sales, advertising, price figuring, employment of a portion of the technical personnel, collections, purchases, finances and also keeping in constant touch with new technological developments and processes. (R. 36-37.)

During the taxable years ended June 30, 1941, and June 30, 1942, Hayek worked from 65 to 75 hours per week as compared with about 45 hours in 1939. Many times he worked on Sunday during the war and more than once he was required to work all night on important war jobs.

Kennedy worked about 54 hours per week during the taxable years as compared with about 45 hours per week during 1939 and 1940. (R. 37.)

The business of the taxpayer during the years 1941 and 1942 included the production of many items in addition to name plates, including scales, dials, instruction and designation plates, luminous, fluorescent and phosphorescent plates and other articles of similar nature which were sold largely to the airplane industry. It was necessary to substitute plastics and fibres for metals in manufacturing many products because of the shortage of metals and the necessity for conserving strategic materials. The business of the company during these years also involved the use of radium and black light. Many problems arose due to the fumes caused by the use of certain materials, allergies and radioactivity. Government inspection during the war was very rigid, requiring greater accuracy in production than in prior years. (R. 37-38.)

The by-laws of the taxpayer empowered the board of directors to appoint and remove all officers of the company, prescribe their duties and fix their compensation. (R. 38.)

The minutes of the regular meeting of the board of directors of the taxpayer held on April 30, 1940, provide in part as follows (R. 38):

On motion of Jos. W. Hayek, seconded by D. R. Koelling, it was voted to increase the salary of W. J. Kennedy, to \$12,000 per year, retroactive to July 1st, 1939.

W. J. Kennedy then relinquished the chair to Jos. W. Hayek, and moved, seconded by D. R. Koelling, that the salary of Jos. W. Hayek be increased to \$12,000 per year, retroactive to July 1st, 1939.

The minutes of the regular meeting of the board of directors of the taxpayer held on June 11, 1941, provide in part as follows (R. 38):

On motion of W. J. Kennedy, seconded by D. R. Koelling, a bonus of \$5,000 was voted to Jos. W. Hayek and W. J. Kennedy.

The taxpayer's net sales, officers' compensation (Hayek and Kennedy only), net income before federal taxes on income, federal taxes on income, and net profits for the fiscal years ended June 30, 1936, to June 30, 1942, inclusive (R. 38-39), were as follows (R. 39):

Year Ended June 30	Net Sales	Officers' Compen- sation	Net Income before Federal Taxes	Federal Taxes on Income	Net Profit
1936.....	\$82,153.49	\$6,542.00	\$16,430.61	\$2,925.79	\$13,504.82
1937.....	98,354.42	15,000.00	13,870.53	2,961.67	10,908.86
1938.....	109,464.23	15,322.40	6,387.47	1,526.50	4,860.97
1939.....	109,966.49	15,183.30	10,164.23	1,347.99	8,816.24
1940.....	151,446.43	24,194.80	15,862.53	2,145.75	13,716.78
1941.....	256,451.30	34,000.00	46,942.07	16,709.61	30,232.46
1942.....	363,912.88	34,000.00	91,747.72	50,597.47	41,150.25

Beginning in 1931 the taxpayer began paying bonuses to certain of its employees. During the taxable years such bonuses approximated \$12,000 to \$14,000 per year. During the fiscal years ended June 30, 1937, to June 30, 1942, inclusive, the taxpayer's employees numbered 39, 36, 37, 53, 73 and 90, respectively. (R. 39.)

The taxpayer accumulated certain scrap from time to time which is the metal that was left over from the various jobs. It is usually referred to as "overs on jobs" and is sold as scrap. The proceeds from the sales of scrap by the taxpayer amounted to \$1,873.16 for the fiscal year ended June 30, 1941, and \$1,716.36 for the fiscal year ended June 30, 1942. One-half of these amounts was paid over to Hayek and one-half to Kennedy, who, together with their respective wives, reported the amounts in their



individual income tax returns as income from the sale of scrap. The taxpayer did not return any of the proceeds from the sales of scrap as income and neither did it deduct any amount as compensation, or otherwise, on account of the proceeds that were paid over to Hayek and Kennedy. The proceeds from the sale of scrap were a part of the taxpayer's gross income and should have been returned by the taxpayer as such. It is the practice in the name plate industry to permit officers to sell scrap and to regain the proceeds from such sales as a bonus or additional compensation. Everywhere that Hayek ever worked he always got the scrap or part of the scrap. In 1916, when he was working for a Minneapolis concern, his salary was \$4,420 plus all the scrap except the scrap from sterling silver. In 1930 he was offered a position at an annual salary of \$12,000 plus 20% of the scrap. (R. 39-40.)

During the years 1941 and 1942 there were only two or three firms besides the taxpayer in the name plate business in the Los Angeles area. The principal competitor of the taxpayer in the Los Angeles area was Miller Dial & Nameplate Company. During the years 1941 and 1942 Miller Dial & Nameplate Company was a partnership composed of two brothers, Charles W. Miller and John Dawson Miller. The duties of Charles in the partnership were very similar to those of Kennedy in the taxpayer company and the duties of John in the partnership were very similar to those of Hayek in the taxpayer company. The sales of Miller Dial & Nameplate Company for the calendar year 1941 were approximately \$150,000 and for the calendar year 1942 they were approximately \$338,000. No salaries were paid to the partners in Miller Dial & Nameplate Company for the year 1941; the partners simply made withdrawals as needed. For the year 1942 the salary of



Charles was \$24,000 and that of John was \$18,000. (R. 40-41.)

During February or March of the year 1943 the Northern Engraving Company of Racine, Wisconsin, offered to purchase a 51% control of the business of the taxpayer and to retain the services of Hayek and Kennedy for a period of two years. This offer was rejected. (R. 41.)

The taxpayer has declared or paid no dividends, as such, since the fiscal year ended June 30, 1938. (R. 41.)

A reasonable allowance for salaries or other compensation for personal services actually rendered to the taxpayer by each of its officers, Hayek and Kennedy, during each of the taxable years ended June 30, 1941, and June 30, 1942, was the basic salary paid to each officer in each year in the respective amount of \$12,000 plus the proceeds from the sale of scrap in each of the taxable years paid to those two respective officers. The amounts of \$5,000 paid to each officer in the taxable years ended June 30, 1941, and June 30, 1942, were in the nature of dividend distributions on stock. (R. 41).

Upon the basis of the foregoing facts the Tax Court, affirming in part the Commissioner's determination (R. 16-29), found and held that the bonus payments in question aggregating \$10,000 for each of the taxable years involved were in the nature of dividend distributions on stock and therefore were not deductible as ordinary and necessary business expenses for those years (R. 41, 52-59), and thereupon entered its decision accordingly (R. 68-69). From the decision so entered the taxpayer petitioned this Court for review. (R. 69-74.)

#### SUMMARY OF ARGUMENT

The Tax Court properly allowed the taxpayer to deduct only a reasonable portion of the total sum paid to its president and secretary-treasurer as salaries, bonuses and other

compensation for the taxable years ended June 30, 1941, and June 30, 1942, and disallowed the remainder (bonuses) as being in reality dividend distributions of profits and therefore not deductible as business expenses. The question presented is one of fact, and since there is substantial evidence to support the Tax Court's findings and decision they should be affirmed upon review.

The facts show that the taxpayer was a closely held corporation completely controlled and dominated by the two officers in question who, barring one qualifying share, owned equal shares of all the taxpayer's outstanding stock, that no dividends were declared or paid during the taxable years or for several years prior thereto, and that the increased compensation they voted themselves as directors and officers of the corporation and received as bonuses in those years, actually represented corporate earnings. Under these circumstances it is apparent that the excessive sums paid them as bonuses were in fact distributions of profits. Accordingly, the bonuses in question, over and above the salaries and other compensation allowed by the Tax Court as reasonable, may not properly be considered as reasonable allowances for services actually rendered during the taxable years and deducted as business expenses.

#### ARGUMENT

**The Tax Court's findings as to the amounts in question which constituted unreasonable compensation paid as bonuses to the taxpayer's officers are supported by substantial evidence and should therefore be sustained**

The answer to the question herein turns on the decision as to whether the amounts in controversy, aggregating \$10,000 and representing payments made by the taxpayer as bonuses, in addition to the regular salaries and other compensation, to its president and secretary-treasurer during each of the taxable years ended June 30, 1941, and June 30, 1942, and disallowed by the Commissioner and the Tax

Court as unreasonable, constituted, over and above the sums allowed as deductions, "a reasonable allowance for salaries or other compensation for personal services actually rendered" during those years, within the meaning of the statute and the Regulations. Section 23 (a) (1) (A) of the Internal Revenue Code, as amended (Appendix, *infra*); Sections 19.23 (a)-1, 19.23 (a)-6, and 19.23 (a)-8 of Treasury Regulations 103 (all Appendix, *infra*). If so, the statute authorizes the deduction thereof as ordinary and necessary expenses paid or incurred during the taxable years in carrying on the taxpayer's trade or business (Section 23 (a) (1) (A)); otherwise, deduction of the excess amounts disallowed as unreasonable is unauthorized.

The applicable Treasury Regulations of long standing provide that the allowance "may not exceed what is reasonable under all the circumstances", and that, in general, reasonable compensation constitutes "only such amount as would ordinarily be paid for like services by like enterprises under like circumstances." Section 19.23 (a)-6 (3), Treasury Regulations 103.

It is established by numerous decisions of this Court and the other Circuit Courts of Appeals that the question of reasonableness of salaries or other compensation claimed as deductions is purely one of fact; that the taxpayer has the burden of proving that the Commissioner's determination, presumptively correct, is wrong; and that the Tax Court's finding of the amount constituting reasonable compensation is entitled to finality if supported by substantial evidence.<sup>2</sup> These decisions are merely applications of

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<sup>2</sup> *E. Wagner & Son v. Commissioner*, 93 F. 2d 816, 818 (C.C.A. 9th); *Sunset Scavenger Co. v. Commissioner*, 84 F. 2d 453, 456 (C.C.A. 9th); *General Water Heater Corp. v. Commissioner*, 42 F. 2d 419, 420 (C.C.A. 9th); see also, for example, *Westmoreland Specialty Co. v. Burnet*, 57 F. 2d 615 (App. D. C.), certiorari denied, 287 U. S. 609; *L. E. Pinkham Med. Co. v. Commissioner*, 128 F. 2d 986, 990 (C.C.A. 1st), certiorari denied,

the familiar principles governing the scope of judicial review of the Tax Court's factual determination.<sup>3</sup> As stated by the Supreme Court in *Wilmington Co. v. Helvering*, 316 U. S. 164, 168:

It is the function of the Board, not the Circuit Court of Appeals, to weigh the evidence to draw inferences from the facts, and to choose between conflicting inferences. The court may not substitute its view of the facts for that of the Board. Where the findings of the Board are supported by substantial evidence they are conclusive.

The appellate court will merely examine the evidence to see whether the Tax Court's findings are supported by substantial evidence, and it need go no further than look into the evidence to ascertain whether it is "legally sufficient to sustain" the findings. *Phillips v. Commissioner*, 283 U. S. 589, 600; *Tracy v. Commissioner*, 53 F. 2d 575, 578 (C.C.A. 6th). Thus, unless there is no rational basis in the evidence for the Tax Court's conclusion, this Court is

317 U. S. 675; *L. & C. Mayers Co. v. Commissioner*, decided November 3, 1941 (1941 P-H B.T.A. Memorandum Decisions, par. 41,489), affirmed *per curiam*, 131 F. 2d 309 (C.C.A. 2d), certiorari denied, 318 U. S. 773; *Long Island Drug Co. v. Commissioner*, 111 F. 2d 593, 594 (C.C.A. 2d), certiorari denied, 311 U. S. 680; *In re Rae's Estate*, 147 F. 2d 204, 207-208 (C.C.A. 3d); *Anthony P. Miller, Inc. v. Commissioner*, 164 F. 2d 268, 270 (C.C.A. 3d); *Miller Mfg. Co. v. Commissioner*, 149 F. 2d 421, 423 (C.C.A. 4th); *Crescent Bed Co. v. Commissioner*, 133 F. 2d 424, 426 (C.C.A. 5th); *Clinton Co. v. Commissioner*, 159 F. 2d 102 (C.C.A. 7th); *Helvering v. Superior Wines & Liquors*, 134 F. 2d 373, 378 (C. C. A. 8th); cf. *Hecht v. United States*, 54 F. 2d 968 (C.Cls.), certiorari denied, 286 U. S. 560.

<sup>3</sup> *John Kelley Co. v. Commissioner*, 326 U. S. 521; *Commissioner v. Flowers*, 326 U. S. 465, rehearing denied, 326 U. S. 812; *Boehm v. Commissioner*, 326 U. S. 287, rehearing denied, 326 U. S. 811; *Commissioner v. Court Holding Co.*, 324 U. S. 331; *Commissioner v. Scottish American Co.*, 323 U. S. 119; *Dobson v. Commissioner*, 320 U. S. 489, rehearing denied, 321 U. S. 231; *Wilmington Co. v. Helvering*, 316 U. S. 164; *Helvering v. Kehoe*, 309 U. S. 277; see *Commissioner v. Heininger*, 320 U. S. 467, 475.

required to affirm its decision on such issue. *Boehm v. Commissioner*, 326 U. S. 287, rehearing denied, 326 U. S. 811.

Moreover, in deciding this question, the Tax Court must necessarily exercise its own judgment, and will not be required to ascertain a reasonable allowance with mathematical precision. *Tumwater Lumber Mills Co. v. Commissioner*, 65 F. 2d 675 (C.C.A. 9th); *Atlas Plaster & Fuel Co. v. Commissioner*, 55 F. 2d 802, 804 (C.C.A. 6th). Since profits may be distributed as salary, extra compensation, a bonus, etc., it is proper to inquire whether the payments are in fact compensation for services actually rendered or are in whole or in part merely distributions of profits. *Botany Mills v. United States*, 278 U. S. 282, 292; *Marble & Shattuck Chair Co. v. Commissioner*, 39 F. 2d 393 (C.C.A. 6th); *Twin City Tile & M. Co. v. Commissioner*, 32 F. 2d 229 (C.C.A. 8th). The credibility of the witnesses, and the weight to be accorded to their testimony and the other evidence adduced at the trial, are matters which were clearly within the province of the Tax Court to determine, for the Tax Court was not required to accept the opinion evidence of the taxpayer's witnesses as to the reasonableness of the salary paid, if it did not see fit to accept such evidence. *Sunset Scavenger Co. v. Commissioner*, 84 F. 2d 453 (C.C.A. 9th); *E. Wagner & Son v. Commissioner*, 93 F. 2d 816 (C.C.A. 9th); *L. & C. Mayers Co. v. Commissioner*, 131 F. 2d 309 (C.C.A. 2d), certiorari denied, 318 U. S. 773; *In re Rae's Estate*, 147 F. 2d 204, 207 (C.C.A. 3d); *Am-Plus Storage B. Co. v. Commissioner*, 35 F. 2d 167 (C.C.A. 7th). Also, the Tax Court's findings may not be set aside on appeal because of a difference of opinion as to the weight of the evidence, and its decision based thereon should be sustained if there is any substantial evidence to support it. *Botchford v. Commissioner*, 81 F. 2d 914 (C.C.A. 9th); *General Water Heater Corp v. Commis-*



sioner, 42 F. 2d 419 (C.C.A. 9th); *L. E. Pinkham Med. Co. v. Commissioner*, 128 F. 2d 986 (C.C.A. 1st), certiorari denied, 317 U. S. 675.

Accordingly, the issue here reduces itself simply to a determination of whether or not there is any substantial evidentiary support for the Tax Court's finding that (R. 41):

A reasonable allowance for salaries or other compensation for personal services actually rendered to petitioner by each of its officers, Hayek and Kennedy, during each of the taxable years ended June 30, 1941, and June 30, 1942, was the basic salary paid to each officer in each year in the respective amount of \$12,000 plus the proceeds from the sale of scrap in each of the taxable years paid to those two respective officers. The amounts of \$5,000 paid to each officer in the taxable years ended June 30, 1941, and June 30, 1942, were in the nature of dividend distributions on stock.

We submit and show hereinafter that these ultimate findings are amply supported by the record and that, as is plain from its opinion (R. 52-59), the Tax Court weighed all the relevant factors, including those favorable as well as those unfavorable to the taxpayer, in arriving at its decision.

In the first place, upon the Commissioner's determining what portion of the increased amount paid the taxpayer's two officers constituted reasonable compensation for the services actually rendered by them, the taxpayer can prevail only upon a showing that the evidence fairly establishes that the claimed larger amounts were reasonable under all the circumstances, that such amounts were intended and paid as compensation for services, and that the extra compensation was such as would ordinarily have been paid by similar corporations or business enterprises to corresponding officers or employees for like services under like circumstances. Sections 19.23 (a)-6 and 19.23 (a)-8, Treas-



ury Regulations 103; *Botany Mills v. United States, supra*; *Welch v. Helvering*, 290 U. S. 111, 115; *L. & C. Mayers Co. v. Commissioner*, decided November 3, 1941 (1941 P-H B.T.A. Memorandum Decisions, par. 41,489), affirmed *per curiam*, 131 F. 2d 309 (C.C.A. 2d), certiorari denied, 318 U. S. 773. The taxpayer has failed to meet these requirements.

In the foregoing cases and many others it has been recognized that where a corporation makes a payment to an officer who is also a stockholder and seeks to deduct the amount as compensation for services in computing the tax, it is open to inquiry whether the payment is in fact compensation or is in whole or in part merely a distribution of profits. In the *Botany Mills* case, *supra*, the Supreme Court said (p. 292):

We do not find it necessary to determine here whether the amounts paid by a corporation to its officers as compensation for their services cannot be allowed as "ordinary and necessary expenses" within the meaning of Section 12 (a), merely because, and to the extent that, as compensation, they are unreasonable in amount. However, this may be, it is clear that extraordinary, unusual and extravagant amounts paid by a corporation to its officers in the guise and form of compensation for their services, but having no substantial relation to the measure of their services and being utterly disproportioned to their value, are not in reality payment for services, and cannot be regarded as "ordinary and necessary expenses" within the meaning of the section; and that such amounts do not become part of the "ordinary and necessary expenses" merely because the payments are made in accordance with an agreement between the corporation and its officers.

The Commissioner disallowed all but the regular salaries and the Tax Court, holding that the bonuses were in the

nature of dividend distributions on stock, disallowed only the bonuses as unreasonable. (R. 33, 41, 52-59.) The taxpayer contends, however, that the Tax Court erred in failing to allow as deductions the total amounts paid its two officers as salaries, bonuses and proceeds from scrap sales which allegedly represented reasonable compensation for personal services actually rendered. It states that this is shown by the taxpayer's statistical data for earnings and the testimony of disinterested and competent witnesses. (Pet. Br. 14-17, 30-32.) It contends further that the Tax Court also erred in holding that the bonus payments of \$10,000 to those officers in each taxable year were in the nature of dividend distributions and therefore not deductible as business expenses (Br. 18-19), the Tax Court having erroneously failed to give proper weight and credit to the action of the taxpayer's board of directors voting the bonuses to such officers (Br. 28-29).

As to the resolution of the taxpayer's board of directors, the amount of salary and other compensation fixed by the corporate directors' resolution is presumptively valid but it is not conclusively so. *Becker Bros. v. United States*, 7 F. 2d 3 (C.C.A.2d); *H. L. Trimyer & Co. v. Noel*, 28 F. 2d 781 (E.D.Va.). Neither was the testimony of the taxpayer's witnesses binding since the Tax Court was free to reject their opinion evidence if it did not see fit to accept it, as heretofore shown. The Tax Court was at liberty to weigh all the evidence and relevant factors, as it did, and thereby arrive at the ultimate findings that the regular salaries of \$24,000 paid the two officers, plus the proceeds from the scrap sales, constituted a reasonable allowance for their services actually rendered during the taxable years, and that the \$10,000 paid them additionally as bonuses during those years were in the nature of dividend distributions, and therefore not deductible as business ex-

penses paid in the guise of compensation for services. (R. 41, 57-59.) The primary findings (R. 34-41) upon which these findings were based are amply supported by the evidence (R. 76-162), and show conclusively that the excess compensation paid the two officers in the form of bonuses was unreasonable and in any event not deductible as business expenses because it represented distributions of profits.

A consideration of all the facts and surrounding circumstances leads irrefragably to the conclusion that the aggregate salaries and other sums paid as compensation to the taxpayer's two officers in the taxable years represented, in part at least, unreasonable compensation for services rendered, and that a reasonable compensation for such services during those years was not more than \$12,000 each, the same as paid in the prior year, plus the proceeds from the scrap sales, as the Tax Court held. (R. 58-59.) The prior years' salaries compared with those of the taxable years, the absence of any declaration and payment of dividends after the fiscal year ended June 30, 1938, and the resolutions of the taxpayer's only two directors and stockholders (barring one qualifying share) two months before the beginning of the taxable years increasing retrospectively their own compensation as officers from \$12,000 each in the prior year to an amount in excess of \$17,000 each for the taxable years, all tend to show this. The taxpayer has failed to show any justification for an increase, over the prior year, in excess of that determined in part by the Commissioner and as redetermined in greater amount by the Tax Court. (R. 41, 58-59.) There is no evidence whatever to show that the taxpayer's increases in sales for the taxable years over the preceding years (R. 39) were the result of increased effort or ability on the part of the two officers, or that they were not the direct result of the unusual market conditions and commercial prosperity then prevail-

ing because of the war conditions. World War II was then in progress and it is common knowledge that from that time on there was an insatiable demand and ready market for practically any and all manufactured products without much, if any, necessity for selling effort. The evidence shows that the taxpayer's business was materially enhanced to unprecedented proportions during the taxable years by the manufacture and sale of war materials.<sup>4</sup> (R. 95, 97-99, 101, 108, 116-117, 125.) The two officers in question were paid increases during the taxable years in excess of 59% over the preceding year 1940 and much greater increases over 1939 and prior years (R. 39, 58), and the portion of the increases (bonuses) disallowed is not shown to have been justified as reasonable compensation upon the basis of any such factors as increases in sales effected by the efforts of the two officers. Hence, the taxpayer has not shown and the record does not show on what basis the two officers in question received the bonuses during the taxable years. The additional payments were merely determined and fixed by the taxpayer's board of directors of which the two officers—together with Mr. Koelling who owned only one qualifying share—were the only members, and they voted themselves the bonuses. (R. 35-36, 38.) This is a significant factor not to be overlooked in considering the reasonableness and consequently deductibility of their com-

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<sup>4</sup> The evidence shows (R. 98) that in reply to the question, "Was that [war] business increased in 1941 and 1942 over prior years?" witness Kennedy replied "We had an amazing increase." He also testified (R. 108) that in 1941-1942 "we were still completing a lot of commercial business, and going right into war business, and he [Mr. Hayek] was doing twice as much work a part of that time"; and that (R. 117) "the commercial business was becoming less and the military business was increasing, and at the end of 1942 they had practically eliminated the commercial producer, making goods for the commercial producer." Likewise, witness Miller (R. 142), in answer to the question "whether or not the major portion of the increase in business of nameplate companies generally was due to the war activity", stated, "I believe it was."

pensation. *L. & C. Mayers Co. v. Commissioner*, decided November 3, 1941 (1941 P-H B.T.A. Memorandum Decisions, par, 41,489), affirmed *per curiam*, 131 F. 2d 309 (C.C.A.2d), certiorari denied, 318 U. S. 773.

The test of deductibility in the case of salaries, bonuses and other compensation is whether they were reasonable and were in fact payments purely for services. Ostensible additional compensation paid by a corporation having a few stockholders who draw salaries invites scrutiny, and in any event the allowance for compensation paid may not exceed what was reasonable under all the circumstances (Sections 19.23 (a)-6 and 19.23 (a)-8 of Treasury Regulations 103), as the Tax Court stated (R. 55). Applying this test to the facts herein, it is at once apparent that the Tax Court properly found and held upon the evidence that the bonuses paid to the two officers were in fact in the nature of dividend distributions on stock, and therefore not deductible as business expenses over and above the regular salaries and the proceeds from scrap sales paid them. (R. 41, 57-58.) Although the taxpayer had large increases in surplus during the taxable years over the preceding years (R. 42-44), the Tax Court found upon the evidence that the taxpayer had declared and paid no dividends, as such, since the fiscal year ended June 30, 1938, when it paid a 20% dividend of \$5,006 (R. 41, 56); and that during that year it paid its two officers compensation slightly in excess of \$15,000 and had net profits, after deduction of federal taxes, of approximately \$4,860 (R. 39, 56). Thereafter the taxpayer's net profits, after taxes were deducted, increased substantially from year to year but the taxpayer nevertheless failed to declare and pay dividends. Instead, it progressively increased the compensation paid its only two officers who, barring one qualifying share, owned 50% each of all the taxpayer's stock, until their combined increases in compensation eventually became the equivalent



of substantial dividends on the outstanding stock during all the non-dividend years (R. 39), as the Tax Court pointed out (R. 56-57). It is quite apparent from these facts, therefore, that the bonus payments were not in fact payments purely for services and reasonable under all the circumstances but that they actually represented distributions of profits in the guise of compensation during the taxable years. *Botany Mills v. United States*, *supra*, p. 292; *H. Levine & Bros. v. Commissioner*, 101 F. 2d 391, 393 (C.C.A.7th); *Am-Plus Storage B. Co. v. Commissioner*, 35 F. 2d 167 (C.C.A.7th); *Twin City Tile & M. Co. v. Commissioner*, 32 F. 2d 229 (C.C.A.8th); *Marble & Shattuck Chair Co. v. Commissioner*, 39 F. 2d 393 (C.C.A. 6th); *Drawoh, Inc. v. Commissioner*, 28 B.T.A. 666, 682, petition for review dismissed, without opinion, 74 F. 2d 1012 (C.C.A.7th). Consequently, for purposes of taxation, the bonuses must be treated as dividend payments made by the taxpayer and not as business expenses for which deductions may be taken. *Tumwater Lumber Mills Co. v. Commissioner*, 65 F. 2d 675, 677 (C.C.A.9th); *Chattanooga Sav. Bank v. Brewer*, 17 F. 2d 79 (C.C.A. 6th), certiorari denied, 274 U.S. 751; *R. L. Heflin, Inc. v. United States*, 58 F. 2d 482, 486-487 (C. Cls.), certiorari denied, 287 U. S. 631.

It has been held that when a corporation in the normal course of business consistently pays out large portions of its profits as compensation to its officers who are the principal stockholders, such distribution is one of profit rather than an "ordinary and necessary" expense of business. *H. Levine & Bros. v. Commissioner*, *supra*, pp. 393-394. The fact that the salaries, bonuses and other compensation paid to its two officers by the taxpayer were in direct proportion or substantially so to their stockholdings is strong evidence of intent to distribute profits as salaries and other compensation. This must be overcome by clear evidence showing that such compensation was



reasonable in amount and actually represented compensation purely for personal services rendered, barring which it must be disallowed as a deduction for business expense. *General Water Heater Corp. v. Commissioner*, 42 F. 2d 419, 420 (C.C.A. 9th); *Bridges-Smith Co. v. Glenn* (W.D.Ky.), decided March 18, 1939 (24 A.F.T.R. 1212), affirmed *per curiam*, 116 F. 2d 934 (C.C.A. 6th); *Woodcliff Silk Mills v. Commissioner*, 1 B.T.A. 715, 718. Additional compensation to officer-stockholders may properly be disallowed or reduced where the circumstances show that the increase was intended to absorb an anticipated expansion of earnings rather than the payment for additional services rendered. Section 19.23 (a)-7 of Treasury Regulations 103; *Walts, Inc. v. Commissioner*, decided January 17, 1947 (1947 P-H T.C. Memorandum Decisions Service, par. 47,003) now pending in this Court.

The only fact apparently adduced by the taxpayer in an attempt to justify the claimed deduction was the increase in its net sales for the taxable years.<sup>5</sup> (R. 39.) While there was a substantial increase in the sales for each year (R. 39), that factor, while relevant, is by no means in itself conclusive of the reasonableness of the total amounts paid the two officers as compensation during those years. *Clinton Co. v. Commissioner*, 159 F. 2d 102 (C.C.A. 7th); *Long Island Drug Co. v. Commissioner*, 111 F. 2d 593 (C.C.A. 2d), certiorari denied, 311 U. S. 680. Especially is this true where the increase in sales is not shown to have been attributable to the officers' increased services but rather the direct result of the unusual market conditions and commercial prosperity then prevailing generally due to the

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<sup>5</sup> The showing of the two officers' increased hours of work in the taxable years as compared with those of prior years is well taken care of by the increases in the basic salaries. (R. 39.) It should also be noted that the bonuses were not paid in proportion to the respective increases in time worked but in proportion to stockholdings.

unprecedented war demands. (R. 95, 97-99, 101, 108, 116-117, 125.) Cf. *Miller Mfg. Co. v. Commissioner*, 149 F. 2d 421, 423 (C.C.A. 4th).

The fact that the taxpayer's financial condition and volume of business continued to improve steadily during the taxable years over prior years does not in any sense require the conclusion that the amounts paid as bonuses to the two officers were no more than reasonable for the services rendered. The same reasoning would be equally applicable to justify *any* amounts of increase in compensation. Quite clearly the stockholding officers would have found it not a little difficult to explain to the other stockholders—if there had been any other than the two officers in question—that it was reasonable steadily to increase their own compensation from year to year commensurate with the taxpayer's increased earnings while paying no dividends as in the taxable years when their compensation was much greater than ever before.

In closely held corporations such as the taxpayer, just as in family corporations, one of the principal criteria in determining reasonableness of officers' salaries and other compensation is whether a stranger's services would be worth the amount claimed as deductions and whether a similar enterprise or a competitor in a like business would place like value on such services. Section 19.23 (a)-6 of Treasury Regulations 103; *L. & C. Mayers Co. v. Commissioner*, *supra*. While comparative salaries are important and material in controversies involving the reasonableness of salary deductions, the taxpayer's contention (Br. 30-32) that the Tax Court erred in failing to give full weight to the testimony of its witness in respect of the business of its only competitor of a size comparable with the taxpayer, is without avail. We have already shown that it is entirely within the province and discretion of the Tax Court to deter-

mine what weight, if any, is to be accorded the testimony of witnesses and the other evidence adduced at the trial, and that it may accept or reject such evidence as it sees fit. Amounts paid by similar enterprises for services of like character furnish a guide but not a rule. *William S. Gray & Co. v. United States*, 35 F. 2d 968, 973 (C. Cls.). Moreover, the comparative data and statistics adduced by the taxpayer's witness could not be given the weight contended for by the taxpayer because the alleged similar enterprise was a partnership and not a corporation. Therefore, it could have distributed all its earnings in the form of salaries and compensation among the partners without regard to tax consequences. But, as the Tax Court pointed out (R. 57-58), this is not true in the case of a corporation where it is very important for tax purposes whether the payments were in fact for services actually rendered and were reasonable under all the surrounding circumstances, as required by the statute and the Regulations.

We think that *Capitol-Barg Dry Clean. Co. v. Commissioner*, 131 F. 2d 712 (C.C.A. 6th), relied upon principally by the taxpayer (Br. 15-17, 29, 32), was decided erroneously since it is inconsistent with the decisions of this Court and the many other courts above cited. In that case the court held that since the evidence showed that the work of the taxpayer's two principal officers resulted in profitable business and in the opinion of disinterested witnesses who were familiar with such business the compensation payments were fair and reasonable, the salaries and bonuses paid them were deductible as claimed. That holding, however, is inconsistent with this Court's decision in such cases as *Doernbecher Mfg. Co. v. Commissioner*, 95 F. 2d 296, for example, which affirmed the decision of the Board of Tax Appeals ascertaining and fixing the reasonable allowance as compensation of the officers of the taxpayer corporation,

and is a complete answer to all of the taxpayer's contrary contentions herein. This Court there held (p. 299) that where all the facts were before the Board, as was the case there, the fixing of the amount of reasonable necessary expenditures rested exclusively with the Board and for that reason the Court could not substitute its own judgment on that matter even if it were disposed to do so.

We have not reviewed the several other cases cited by the taxpayer since the question of what constitutes reasonable salaries and other compensation depends upon the facts in each particular case. *H. Levine & Bros. v. Commissioner*, *supra*, p. 393. As this Court, quoting from *Atlas Plaster & Fuel Co. v. Commissioner*, 55 F. 2d 802, 804 (C.C.A. 6th), stated in *Tumwater Lumber Mills Co. v. Commissioner*, *supra*, p. 677, with reference to cases of this kind: "Every case must stand upon its own peculiar facts and circumstances." Therefore, the many rulings and decisions in which such compensation has been determined can have no particular value as precedents herein.

Finally, we submit that there is no merit to the taxpayer's contention that the Tax Court erred in denying its motion to vacate and set aside the memorandum findings of fact and opinion (R. 66-68) because the Tax Court had not complied with the provisions of the Administrative Procedure Act, c. 324, 60 Stat. 237. The taxpayer erroneously alleges that that Act now governs the review of the Tax Court's decisions, citing *Lincoln Electric Co. v. Commissioner*, 162 F. 2d 379 (C.C.A. 6th), and *Dawson v. Commissioner*, 163 F. 2d 664 (C.C.A. 6th). (Pet. Br. 20-22.)

In the first place, the granting of or refusing to grant motions such as the taxpayer's herein is, as in the case of motions for rehearing, etc., solely within the sound discretion of the Tax Court in the absence of clear abuse of discretion. *McCarthy v. Commissioner*, 139 F. 2d 20 (C.C.A.

7th); *Skenandoa Rayon Corp. v. Commissioner*, 122 F. 2d 268 (C.C.A. 2d), certiorari denied, 314 U. S. 696; *Freeman-Hampton Oil Corp. v. Commissioner*, 65 F. 2d 456 (C.C.A. 5th); *Jankowsky v. Commissioner*, 56 F. 2d 1006, 1010 (C.C.A. 10th); *Rubel v. Commissioner*, 74 F. 2d 27 (C.C.A. 6th); *Commissioner v. Sussman*, 102 F. 2d 919 (C.C.A. 2d); *Tonopah Mining Co. v. Commissioner*, 127 F. 2d 239 (C.C.A. 3d). Cf. *Todd v. Commissioner*, 153 F. 2d 553 (C.C.A. 9th). The taxpayer has shown no abuse of discretion on the part of the Tax Court herein.

Next, the Sixth Circuit's reference to the Administrative Procedure Act as having broadened its power to review the Tax Court's decisions, without so deciding, in the *Lincoln Electric Co.* case, *supra*, was clearly dictum in that the decision therein turned on the authority of *Trust of Bingham v. Commissioner*, 325 U. S. 365, as the taxpayer suggests. (Br. 22.) In any event, the Administrative Procedure Act does not alter the extent and scope of review of Tax Court decisions for the reason that Section 10 (e) (B) (5) thereof, relating to judicial review and permitting the reviewing court to reverse "agency" findings and conclusions which are "unsupported by substantial evidence", is no broader than the "substantial evidence" rule in respect of factual questions which has been consistently applied by the courts to the review of Tax Court decisions both before and after the decision in *Dobson v. Commissioner*, 320 U. S. 489, rehearing denied, 321 U. S. 231, was handed down. See *Commissioner v. Scottish American Co.*, 323 U. S. 119; *Helvering v. Kehoe*, 309 U. S. 277. Hence that section of the Administrative Procedure Act does not apply any new standards to the review of fact questions and clearly not in the case of Tax Court decisions because Congress had already adopted detailed provisions concerning the authority of the Tax Court and the conduct of its proceed-



ings (Sections 1100-1121 of the Internal Revenue Code (26 U.S.C. 1940 ed., Secs. 1100-1121)), and had already specified the manner in which its decisions shall be reviewed (Sections 1141-1142 of the Internal Revenue Code (26 U.S.C. 1940 ed., Secs. 1141-1142)), without giving any indication that the Administrative Procedure Act is to supersede or to be applied concurrently with those long-established provisions of the Internal Revenue Code.

With all due deference to the court's dictum in the *Lincoln Electric Co.* case to the effect that the Administrative Procedure Act governs review of the Tax Court's decisions, therefore, we nevertheless think that the Act applies only to "agency" actions, and Section 2 (a) thereof clearly excludes the "courts" from the definition of "agency". While the Tax Court is not legally or technically a court, it is clear from the provisions of that Act and its legislative history, particularly Section 5 (relating to "Adjudication") and Section 10 (relating to "Judicial Review"), that it is not an "agency" to which Section 8 or any other section of the Act applies. Apropos of this, the court appropriately stated in *Lawton v. Commissioner*, 165 F. 2d 380 (C.C.A. 6th), as follows (p. 383) :

"\* \* we are not presently concerned with the question whether review of the Tax Court's decisions is governed by the Administrative Procedures Act, 5 U.S.C.A. Sec. 1001 et seq., adverted to in our case of *Lincoln Electric Co. v. Commissioner*, 6 Cir., 162 F. (2d) 379.

Likewise, it is unnecessary to decide whether the Administrative Procedure Act applies in this case since the Tax Court's decision is clearly correct under the authorities cited as well as under any theory of judicial review. See *Dawson v. Commissioner*, *supra*; *Credit Bureau of Greater N. Y. v. Commissioner*, 162 F. 2d 7, 9 (C.C.A. 2d).



## CONCLUSION

The decision of the Tax Court is correct and in accordance with law and the authorities. It should therefore be affirmed upon review by this Court.

Respectfully submitted,

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March, 1948.

## APPENDIX

## Internal Revenue Code:

## SEC. 23. DEDUCTIONS FROM GROSS INCOME.

In computing net income there shall be allowed as deductions:

(a) *Expenses.*—

(1) [As amended by Sec. 121 (a) of the Revenue Act of 1942, c. 619, 56 Stat. 798] *Trade or business expenses.*—

(A) *In General.*—All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered; \* \* \*

\* \* \* \* \*

(26 U. S. C. 1940 ed., Sec. 23.)

Treasury Regulations 103, promulgated under the Internal Revenue Code:

SEC. 19.23 (a)-1. *Business expenses.*—Business expenses deductible from gross income include the ordinary and necessary expenditures directly connected with or pertaining to the taxpayer's trade or business  
\* \* \*

SEC. 19.23 (a)-6. *Compensation for personal services.*—Among the ordinary and necessary expenses paid or incurred in carrying on any trade or business may be included a reasonable allowance for salaries or other compensation for personal services actually rendered. The test of deductibility in the case of compensation payments is whether they are reasonable and are in fact payments purely for services. This test and its practical application may be further stated and illustrated as follows:

(1) Any amount paid in the form of compensation, but not in fact as the purchase price of services, is not

deductible. (a) An ostensible salary paid by a corporation may be a distribution of a dividend on stock. This is likely to occur in the case of a corporation having few shareholders, practically all of whom draw salaries. If in such a case the salaries are in excess of those ordinarily paid for similar services, and the excessive payments correspond or bear a close relationship to the stock holdings of the officers or employees, it would seem likely that the salaries are not paid wholly for services rendered, but that the excessive payments are a distribution of earnings upon the stock. (b) An ostensible salary may be in part payment for property. \* \* \*

\* \* \* \* \*

(3) In any event the allowance for the compensation paid may not exceed what is reasonable under all the circumstances. It is in general just to assume that reasonable and true compensation is only such amount as would ordinarily be paid for like services by like enterprises under like circumstances. The circumstances to be taken into consideration are those existing at the date when the contract for services was made, not those existing at the date when the contract is questioned.

SEC. 19.23 (a)-8. *Bonuses to employees.*—Bonuses to employees will constitute allowable deductions from gross income when such payments are made in good faith and as additional compensation for the services actually rendered by the employees, provided such payments when added to the stipulated salaries, do not exceed a reasonable compensation for the services rendered. It is immaterial whether such bonuses are paid in cash or in kind or partly in cash and partly in kind. Donations made to employees and others, which do not have in them the element of compensation or are in excess of reasonable compensation for services, are not deductible from gross income.

No. 11804.

IN THE  
United States Circuit Court of Appeals  
FOR THE NINTH CIRCUIT

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KENNEDY NAME PLATE COMPANY, a Corporation,  
*Petitioner,*

*vs.*

COMMISSIONER OF INTERNAL REVENUE,  
*Respondent.*

---

On Petition for Review of the Decision of the Tax Court  
of the United States.

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REPLY BRIEF FOR PETITIONER.

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## TABLE OF AUTHORITIES CITED

CASES	PAGE
Capitol-Barg Dry Cleaning Co. v. Commissioner, 131 F. (2d) 712 .....	2, 3, 4
Consolidated Edison Co. v. N. L. R. B., 305 U. S. 209.....	6
Doernbacher Mfg. Co. v. Com., 95 F. (2d) 296.....	4
Lincoln Electric Co. v. Com., 162 F. (2d) 379.....	4, 6, 7
North Carolina Equipment Co. v. Com., Memo Dec., Tax Court Docket No. 4737.....	3

### MISCELLANEOUS

Congressional Record, July 7, 1947, pp. 8850 et seq.....	8
Senate Document No. 248, 79th Cong., 2d Sess., Legislative History, Administrative Procedure Act, p. 229.....	5
Tax Magazine of Commerce Clearing House, Inc. (Mar. 1948), p. 255, "The Administrative Procedure Act and the Tax Court" .....	4

### STATUTES

Administrative Procedure Act, Sec. 7(a).....	5
Administrative Procedure Act, Sec. 8(a).....	5
Administrative Procedure Act, Sec. 8(b).....	5
Administrative Procedure Act, Sec. 10(e) (B) .....	6
Administrative Procedure Act, Sec. 10(e) (B) (5).....	6
Administrative Procedure Act, Sec. 12.....	7
Internal Revenue Code, Sec. 1141.....	7
Internal Revenue Code, Sec. 1142.....	7

### Appendix :

Article from Tax Magazine of Commerce Clearing House, Inc. (March, 1948), p. 255, entitled "The Administrative Procedure Act and the Tax Court".....	App. p. 1
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As respondent states (Br. 9), the question presented is one of fact, and if there is substantial evidence to support the Tax Court's findings and decision, they should be affirmed on review. Provided, of course, that the provisions of the Administrative Procedure Act have been complied with below by the Tax Court.

The respondent argues (Br. 9), that the bonuses "actually represented corporate earnings" and, therefore, "were in fact distributions of profits." Of course, the bonuses, as well as the salaries of the officers, were paid from "corporate earnings." From what else could they be paid? The fact that bonuses were paid from "corporate earnings" does not make them dividends or distributions of profits.

The respondent states (Br. 13), "upon the Commissioner's determining what portion of the increased amount

paid the taxpayer's two officers constituted reasonable compensation for the services actually rendered by them, the taxpayer can prevail only upon a showing that the evidence fairly establishes that the claimed larger amounts were reasonable under all the circumstances, that such amounts were intended and paid as compensation for services, and that the extra compensation was such as would ordinarily have been paid by similar corporations or business enterprises to corresponding officers or employees for like services under like circumstances."

Respondent has fairly met these tests. On page 6 of respondent's brief there appears a schedule showing the taxpayer's net sales, officer's compensation, net income, federal taxes on income and net profits, all for the years 1936 to 1942. The increases in volume of sales and net profits alone should support the increase in the officer's salaries to what was, after all, moderate compensation in view of the long experience of the officers in the industry, the long hours they worked, and the fact that the entire responsibility on the management of the company rested upon their shoulders. The bonuses were *intended and paid for services*, as shown by the minutes of the board of directors of petitioner (Br. 6). There is absolutely nothing in the record to support a statement that the bonuses paid by petitioner to its officers were not made in good faith and as additional compensation for services actually rendered. *Capitol-Barg Dry Cleaning Co. v. Commissioner*, 131 F. (2d) 712. The extra compensation was such as would ordinarily have been paid by similar corporations or *business enterprises* to corresponding officers or employees for like services under like circumstances. This statement is well supported by the testi-

mony of Charles W. Miller, a disinterested and competent witness, whose testimony was uncontradicted, and The Tax Court cannot arbitrarily disregard such evidence. *Capitol-Barg Dry Cleaning Co. v. Com.*, *supra*. Charles W. Miller was a partner in the principal competitor of petitioner. The fact that Mr. Miller's business form of operation was a partnership, instead of a corporation is immaterial under respondent's own statements and regulations. In respondent's summary of argument (Br. 9), he refers to "like enterprises" as presenting a proper basis of comparison, and in his regulation on the subject he refers to "like services by like enterprises under like circumstances" (Br. 28).

On page 17 of respondent's brief, he states:

"The evidence shows that the taxpayer's business was materially enhanced to unprecedented proportions during the taxable years by the manufacture and sale of war materials."

Respondent advances this fact as an argument for restriction of the compensation of petitioner's officers. The Tax Court in this case does not base its decision on this point. In fact the Tax Court, itself, in *North Carolina Equipment Co. v. Com.*, memorandum decision of the Tax Court, Docket No. 4737, entered June 4, 1945, allowed a salary of \$6,900.00, plus an additional compensation of \$95,353.61 to the president of taxpayer as compensation for the year 1941, stating,

"we think it is of no importance that war conditions in a measure enhanced the profits of petitioner corporation in 1941."

In this case, petitioner was engaged in erection of military camps and war projects.

Respondent respectfully differs with the argument of petitioner that the case of *Capitol-Barg Dry Cleaning Co. v. Com.*, *supra*, should be disregarded upon appeal because it was decided erroneously (Br. 22) and it is inconsistent with the decision of this Court in the case of *Doernbacher Mfg. Co. v. Com.*, 95 F. (2d) 296. The *Capitol-Barg* case represents a well-reasoned decision of the Sixth Circuit Court, which must have been accepted by the Commissioner as certiorari was not applied for. The *Doernbacher* case offers no points of similarity to either the *Capitol-Barg* case or the case on appeal herein. But the facts in the *Capitol-Barg* case are strikingly similar to those before the Court in this appeal.

Respecting the applicability of the Administrative Procedure Act to the review of the decisions of the Tax Court, the respondent for the information of the Court submits as an Appendix to this brief, the complete article entitled "The Administrative Procedure Act and the Tax Court" from "Taxes," the tax magazine of Commerce Clearing House, Inc., for the month of March, 1948, appearing in that magazine at page 255, *et seq.*

Petitioner reiterates its contentions in its opening brief as to the applicability of the Administrative Procedure Act to the Tax Court. *Lincoln Electric Co. v. Commissioner*, 162 F. (2d) 379 (C. C. A. 6th).

Respondent's contention that the granting or refusing of motions such as the motion of petitioner herein to the Tax Court to vacate and set aside the memorandum findings of fact and opinion is "solely within the sound dis-

cretion of the Tax Court” is in error (Br. 23). It is true that a motion for rehearing is within the discretion solely of the presiding judge of the Tax Court. But petitioner’s motion to vacate is of a different type. It goes to the compliance or non-compliance of the Tax Court to the provisions of the Administrative Procedure Act.

Petitioner on June 10, 1947, filed a motion to vacate and set aside the findings and opinion of the Tax Court on the ground that the Tax Court is an “agency” governed by the Administrative Procedure Act, and petitioner had no opportunity, as required by that Act, to submit its objections and exceptions to the Tax Court’s “initial” decision before it became final [Tr. pp. 66-67]. The Tax Court denied this motion [Tr. p. 68].

Section 7(a) of the Administrative Procedure Act provides that cases may be heard by: “(1) the agency; (2) one or more members of the body which comprises the agency, or (3) one or more examiners appointed as provided in this Act.” Section 8(a) provides that in cases where the agency itself has not presided at the reception of the evidence the officer who presided shall make an initial or recommended decision, from which there shall be an opportunity for appeal to, or review by, the agency. Section 8(b) provides that a party shall have an opportunity to submit exceptions to the decision or recommended decision of the hearing officer prior to agency review. On this phase of the Act the Attorney General’s interpretation is as follows (Senate Document No. 248, 79th Congress, 2nd session—Legislative History, Administrative Procedure Act—at page 229):

“Section 8(b): Prior to each recommended, initial, or tentative decision parties shall have a timely



opportunity to submit proposed findings and conclusions, and prior to each decision upon agency review of either the decision of subordinate officers or of the agency's tentative decision, to submit exceptions to the initial, recommended, or tentative decision, as the case may be. \* \* \*

Since the Tax Court judge who heard this case is a member "of the body which comprises the agency," rather than the agency itself, petitioner was entitled, under the above provisions of the Act, to file exceptions to his report, and to opportunity for review by, or on behalf of, the Tax Court itself. Because the Tax Court takes the erroneous position that it is a court rather than an agency, petitioner was accorded neither of these rights. This denial is clearly reversible error under section 10(e)(B) of the Administrative Procedure Act which directs reviewing courts to "hold unlawful and set aside agency action, findings, and conclusions found to be \* \* \* (4) without observance of procedure required by law."

As stated in respondent's brief (Br. 24) the Sixth Circuit held that the Administrative Procedure Act has broadened the power to review the Tax Court's decisions. *Lincoln Electric Co.* case, *supra*. This decision is clearly correct. Section 10(e)(B)(5) is fully discussed in petitioner's opening brief, at pages 23 to 26. It is a forceful adoption of the rule that substantial evidence "is more than a mere scintilla." *Consolidated Edison Co. v. N. L. R. B.*, 305 U. S. 209, 229. Clearly under this subsection, the functions of the reviewing court are not limited to a mere search of the record to see if the burden of evidence lacks any iota of reliable evidence. Courts under the section will be required to base their judgment on review

of the entire record or so much of it as may be cited by any party.

Respondent in his brief at page 25 peculiarly argues that although the Tax Court "is not legally or technically a court, it is clear from the provisions of that Act (the Administrative Procedure Act) \* \* \* that it is not an 'agency' to which Section 8 or any other section of the Act applies." Respondent does not back up the foregoing statement by any authority. If the Tax Court is neither a "Court" or an "Agency," what is it? The Sixth Circuit has rightfully held that it is an agency, subject to the Administrative Procedure Act. *Lincoln Electric Co.* case, *supra*.

As respondent states (Br. 24-25), Congress prior to the enactment of the Administrative Procedure Act had already specified the manner in which the decisions of the Tax Court should be reviewed. Sections 1141-1142 of the Internal Revenue Code. Section 12 of the Act provides, among other things, that:

"(1) Nothing in this Act shall be held—(a) to diminish the constitutional rights of any person. (b) to limit or repeal additional requirements imposed by statute or otherwise recognized by law."

Thus the complete law with respect to appeal now consists of the new law (Administrative Procedure Act) plus the old law (Internal Revenue Code). This is a complete answer to respondent on this point.

If it is thought that for some reason the Tax Court should be exempted from the requirements of the Administrative Procedure Act, this exemption is the function of Congress, rather than that of the courts. Merely because

the requirements of the Act change the procedures of the Tax Court and amplify the rights of taxpayers on appeal is no *reason whatever* to by “judicial legislation” nullify the provisions of the Administrative Procedure Act as applied to the Tax Court. Congress itself realizes that a new bill is necessary to remove the Tax Court from the operations of the Administrative Procedure Act (see Congressional Record, July 7, 1947, pp. 8850 *et seq.*).

### Conclusion.

The decision of the Tax Court should be reversed as not in accordance with the law or as unsupported by the evidence, or, in the alternative, the decision should be reversed and the case remanded to the Tax Court of the United States for such other and necessary procedure under the Administrative Procedure Act as the case may require.

Respectfully submitted,

PRESTON D. OREM,

*Attorney for Petitioner.*





## APPENDIX.

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### The Administrative Procedure Act and the Tax Court.

The Administrative Procedure Act<sup>1</sup> became law on June 11, 1946, in answer to a "widespread demand for legislation to settle and regulate the field of Federal administrative law and procedure."<sup>2</sup> The Act was intended to have broad coverage, and such exemptions as it recognizes are in terms of functions rather than agencies as such.<sup>3</sup>

The purpose of this article is to examine whether the Tax Court is subject to the Administrative Procedure Act, and if so, what important consequences follow.

#### A. Does the Act Apply to the Tax Court?

The Administrative Procedure Act is concerned with administrative agencies. Section 2(a) of the Act defines "agency" to mean

"each authority (whether or not within or subject to review by another agency) of the Government of the United States other than Congress, the courts, or the governments of the possessions, Territories, or the District of Columbia."

The Tax Court is accordingly subject to the Act if it is an "agency," but not if it is a "court," as those terms are used in this definition.

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<sup>1</sup>60 Stat. 237, 5 U.S.C. §1001 *et seq.*

<sup>2</sup>S. Rept., Legislative History, Administrative Procedure Act, Senate Document No. 248, 79th Cong., 2d sess. (hereinafter cited "Legis. Hist."), p. 187.

<sup>3</sup>H. R. Rept., Legis. Hist., p. 250.



The Tax Court is clearly not a court in any technical sense. The Tax Court's predecessor, the Board of Tax Appeals, was created by the Revenue Act of 1924<sup>4</sup> as "an independent agency in the executive branch of the Government." The Internal Revenue Code, when enacted, described the Board in the same way.<sup>5</sup>

The Supreme Court, in *Old Colony Trust Co. v. Commissioner*, 279 U. S. 716, 725 said:

"The Board of Tax Appeals is not a court. It is an executive or administrative board, upon the decision of which the parties are given an opportunity to base a petition for review to the courts after the administrative inquiry of the board has been had and decided."

The change of the Board's name to "Tax Court," and the designation of its members as "judges," in no way affected the status of the tribunal as an independent agency in the executive branch. The Committee Report,<sup>6</sup> explaining §504 of the Revenue Act of 1942<sup>7</sup> which effected the changes, says:

"This section merely changes the names by which the Board of Tax Appeals, its chairman and its members are known. No change is made in its status. The Board, which will hereafter be known as the United States Tax Court, is continued as an inde-

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<sup>4</sup>43 Stat. 253, 338. The Board replaced a departmental Committee on Appeals and Review set up by the Commissioner of Internal Revenue. See H. R. Rept. 179, 68th Cong., 1st sess., pp. 7, 8; *Williamsport Wire Rope Co. v. U. S.*, 277 U. S. 551, 562.

<sup>5</sup>§1100.

<sup>6</sup>H. R. Rept. No. 2333, 77th Cong., 2d sess., pp. 172, 173.

<sup>7</sup>56 Stat. 957.

pendent agency in the executive branch of the Government. *Thus its status as an executive or administrative board is unchanged.* Old Colony Trust Co. v. Commissioner, 279 U. S. 716, 725 (1929). \* \* \* The Board and its divisions will continue to have the same jurisdiction, powers, and duties as provided by existing law.” (Emphasis added.)

In *Commissioner v. Gooch*, 320 U. S. 418, 420, the Supreme Court held that since the Board of Tax Appeals was but “an independent agency in the Executive Branch of the Government” it had no jurisdiction, such as an equity court might have, to apply a doctrine of equitable recoupment. And the Court pointed out<sup>8</sup> that the Board’s change of name to Tax Court had “no effect on the jurisdiction, powers and duties of the *agency*.” A short time later, in *Hutchings-Sealy National Bank v. Commissioner*, 141 F. (2d) 422, the Fifth Circuit Court of Appeals held that the Tax Court, like the Board, was an agency rather than a judicial tribunal, so that it was unnecessary for an executor to seek formal substitution as a party on review of a Tax Court decision where the taxpayer died before the petition for review was filed.

Since the Tax Court is an agency rather than a court, it would seem to follow that, like other agencies, it is subject to the Administrative Procedure Act. This is true unless §2(a) of the Act, exempting “courts” from the Act’s operation, uses the word in some special, esoteric sense; that is, unless Congress intended to exempt from the Act not only tribunals which are courts in fact but also an administrative agency which is called a court.

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<sup>8</sup>Footnote No. 1.

The Attorney General has expressed the view that the Tax Court is not subject to the Act. Commenting on the exemption of courts in §2, the Attorney General said, in a letter to Senator McCarran, Chairman of the Senate Judiciary Committee, while the bill was pending:

“ ‘Court’ includes the Tax Court, Court of Customs and Patent Appeals, the Court of Claims and similar courts. This act does not apply to their procedure nor affect the requirement of resort thereto.”<sup>9</sup>

The Attorney General does not indicate how he arrives at this conclusion with respect to the Tax Court. The Court of Customs and Patent Appeals and the Court of Claims are in quite a different category from the Tax Court. They are legislative courts of record provided for in the Judicial Code.<sup>10</sup> They have been so recognized by the Supreme Court.<sup>11</sup> Their judges, like the judges of constitutional courts, hold office during good behavior and retire with full pay.<sup>12</sup>

The Committee reports express an intention to exclude from the definition of “agency” in the Act only “legislative, judicial, and territorial authorities” and to include “any other ‘authority.’”<sup>13</sup> Congress’ intention to exclude “judicial authorities” from the operation of the Act would

<sup>9</sup>Legis. Hist., p. 224.

<sup>10</sup>Secs. 188 and 136, as amended, Judicial Code; 28 U. S. C. 301, 241.

<sup>11</sup>*Ex Parte Bakelite Corporation*, 279 U. S. 438; *Williams v. United States*, 289 U. S. 553.

<sup>12</sup>28 U.S.C. 301a, 241, 375.

<sup>13</sup>Legis. Hist., pp. 196, 252.

appear not to extend to a body which it had previously set up as "an independent agency in the executive branch of the Government."<sup>14</sup> Indeed, agencies in the executive branch are precisely what the definition is designed to include.

In at least one point in the legislative history it seems to have been tacitly assumed that the Tax Court is among the agencies covered. In the debate on the Senate floor<sup>15</sup> the legislators were discussing §6(a) of the Act which deals with the right of persons appearing before agencies to be represented by counsel. A question was raised as to how far an agency might go in prescribing qualifications of persons eligible to appear as counsel before it. Senator Ferguson asked:

"Let us consider the Tax Board [*sic!*]. Could the Board [*sic!*] itself determine that certain individuals were qualified to appear and that other persons were not qualified to appear?"

Senator McCarran, who sponsored the bill in the Senate, replied:

"The answer to that question is 'No.' The Board [*sic!*] could not do so. The Board [*sic!*] would have to accept lawyers or non-lawyers as the case may be, because a tax expert may not be a lawyer."<sup>15a</sup>

Perhaps further light may be shed on the problem at hand by examining it against the principal objectives which

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<sup>14</sup>See *supra*, p. 2.

<sup>15</sup>Legis. Hist., p. 318.

<sup>15a</sup>Whether Senator McCarran's reply was in fact correct is a question which need not be considered here. Cf. Rule 2, "Rules of Practice before the Tax Court of the United States."

the Administrative Procedure Act was intended to accomplish.

The Act may be said to have three broad, major objections:<sup>16</sup> (1) to make available to the public, except where secrecy is required in the public interest, full information concerning the organization, procedures, rules, and orders of each agency (§3); (2) to prescribe certain minimum procedures and safeguards which each agency must observe in formulating its rules and decisions (sections 4, 5, 7, 8); (3) to define clearly the nature and extent of the right to judicial review of administrative determinations (§10).

It is hard to see why each of these principal objections does not apply as fully to the Tax Court as to other agencies. The Supreme Court in *Dobson v. Commissioner*, 320 U. S. 489, 501, for example, squarely placed judicial review of Tax Court decisions on the same footing as review of the decisions of other agencies. Speaking of the permissible scope of judicial review of Tax Court decisions, the Court emphasized that—

“All that we have said of the finality of administrative determination in other fields is applicable to determinations of the Tax Court.”

(It might also be noted that the Court throughout its opinion referred to the Tax Court as an “administrative body” and to its decisions as “administrative decisions.”) It is true, of course, that there may be no occasion to invoke particular provisions of the Act in the case of the

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<sup>16</sup>*Cf.* S. Rept., Legis. Hist., pp. 193, 194; Sen. debate, *ibid.*, p. 304.

Tax Court.<sup>17</sup> The same may be said of many agencies.<sup>18</sup> It does not follow that the Act does not apply at all.

The Attorney General's Committee on Administrative Procedure, appointed in 1939 at the request of President Roosevelt to investigate the "need for procedural reform in the field of administrative law,"<sup>19</sup> made exhaustive studies covering most of the agencies in the executive branch. The results of its studies were published in a *Final Report*<sup>20</sup> and twenty-seven monographs which it prepared on individual agencies. The Board of Tax Appeals was one of the agencies which the Committee studied, and one of its monographs discusses the Board<sup>21</sup>. Nothing in the *Final Report* or the monograph indicates that the Committee regarded the Board as unique or outside its principal recommendations. The contrary would seem to be clearly true.<sup>21a</sup>

In preparing the bill which became the Administrative Procedure Act, careful attention was paid to the earlier work of the Attorney General's Committee.<sup>22</sup> A Senate

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<sup>17</sup>Examples are §9(b) dealing with licensing, and §5(c) relating to separation of functions between prosecuting and adjudicating officers.

<sup>18</sup>An extreme example is Said Elizabeth Hospital, Washington, D. C., which publishes its organization and procedures as required by §3 (11 Fed. Reg. 177 A-565), but is probably otherwise unaffected by the Act.

<sup>19</sup>See "Final Report of the Attorney General's Committee on Administrative Procedure," Sen. Doc. No. 8, 77th Cong., 1st sess., p. 1.

<sup>20</sup>Note 19, *supra*.

<sup>21</sup>Sen. Doc. No. 10, Part 9, 77th Cong., 1st sess., pp.69-83.

<sup>21a</sup>See Final Report, footnote 19, *supra*, p. 167.

<sup>22</sup>Committee Reports, Legis. Hist., pp. 190, 246.



Judiciary Committee "print" was issued showing the parallel between each provision of the new proposed law and the recommendations of the Attorney General's Committee.<sup>23</sup>

Had the name of the Board of Tax Appeals remained unchanged it would seem to be beyond serious dispute that the Administrative Procedure Act applied to it. But every reason for applying the Act to the tribunal were it still called a Board is equally present now that it is called a Tax Court, since the change in name did not make the tribunal any the less an agency or otherwise affect its functions.<sup>24</sup>

Viewing the Tax Court against this background of the statute creating it, and the history and purposes of the Administrative Procedure Act, it is reasonable to conclude that the Tax Court is among the agencies to which the Act applies, and that the Attorney General's "dictum" to the contrary is wrong.

The Sixth Circuit Court of Appeals reached this conclusion in the case of *Lincoln Electric Company v. Commissioner*, 162 F. (2d) 379, decided on June 5, 1947. The *Lincoln Electric* case involved the deductibility as "ordinary and necessary expenses" of premiums paid upon an employees' retirement annuity policy and payments to a trust for the benefit of employees. The Tax Court decided that the expenditures were not "ordinary and neces-

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<sup>23</sup>Legis. Hist., p. 11 *et seq.*

<sup>24</sup>See *supra*, pp. 2, 3. Suppose that the name of the Board of Tax Appeals had been changed to "Tax Court" after passage of the Act. Surely, the Act at its inception would have applied to the Board and would not have ceased to apply because of the change in name.

sary” and the Commissioner argued that this was a factual determination binding on the Court of Appeals under the *Dobson* rule.<sup>25</sup> The Court of Appeals rejected this argument and reversed the Tax Court, holding that the question before it was one of law which *Dobson* did not preclude it from reviewing. But the Court of Appeals went further and held that, in any event, the permissible scope of review would be fixed by the Administrative Procedure Act rather than by the *Dobson* rule, since it found the Tax Court to be an agency subject to the Act. The Appellate Court found it unnecessary, on the facts before it,

“to particularize in what respect our power to review has been enlarged, except to say that it doubtless has been broadened and that it will be time enough to consider the precise application of the Act when clear-cut questions of fact and law are brought to us for review.”

In *Dawson v. Commissioner*, ..... F. (2d) ..... (decided September 22, 1947), a family partnership case, the Sixth Circuit Court reaffirmed what it had said in the *Lincoln Electric* case with respect to the Administrative Procedure Act, but found that it would reach the same conclusion (affirming the Tax Court) irrespective of the standard of review applied.

The Seventh Circuit Court of Appeals, in *Anderson v. Commissioner* (decided December 17, 1947), recently expressed disagreement with the Sixth Circuit’s *Lincoln Electric* case. The Tax Court had held that certain intra-

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<sup>25</sup>*Dobson v. Commissioner*, 320 U. S. 489.

family transfers of stock did not constitute *bona fide* gifts so that the income remained taxable to taxpayers, the purported donors. On appeal, the taxpayers argued that, because of the Administrative Procedure Act, the *Dobson* rule should not apply to this finding. The Seventh Circuit, affirming the Tax Court said that the evidence supported the Tax Court's decision under any theory of judicial review, and then added gratuitously that it disagreed with the *Lincoln Electric* case anyway. As to the extent of disagreement, however, it is not clear whether the Seventh Circuit felt that the Tax Court was not an agency subject to the Act at all, or whether it merely disagreed with the Sixth Circuit's view that if the Act applied, *Dobson* no longer would.

Assuming, however, the correctness of the Sixth Circuit's view that the Act applies to the Tax Court, the next question is what consequences follow.

## **B. The Consequences.**

The consequences of applying the Act to the Tax Court may be viewed in relation to the Act's three broad objectives set out above; that is: (1) Public information; (2) procedural safeguards, and (3) clarification of the nature and extent of judicial review.

### **1. PUBLIC INFORMATION.**

Section 3 of the Act requires each agency to publish in the Federal Register a description of its central and field organization, statements as to its forms and procedures, and its substantive rules. It also provides that no person need resort to organizational or procedural rules not so

published. The Tax Court has not complied with this section of the Act because it has not regarded itself as subject to the Act. If it is finally held subject to the Act, it will of course have to publish the prescribed materials.

## 2. PROCEDURES.

Tax Court hearing procedures are prescribed by sections 1111 through 1119 of the Internal Revenue Code. A "division" of the Court, consisting of one or more judges, hears cases and reports its determinations.<sup>25a</sup> The report of the division becomes the report of the Court after 30 days, unless within that time the presiding judge directs that the report be reviewed by the Court.<sup>26</sup>

The Administrative Procedure Act provides that presiding officers at hearings shall consist of: (1) the agency; (2) one or more members of the body which comprises the agency, or (3) one or more hearing examiners appointed as provided for in the Act.<sup>27</sup> Section 8(a) provides alternate methods by which an agency may formulate a decision. The hearing officer may make the initial decision which, in the absence of an appeal to the agency, or review upon motion of the agency, becomes the agency decision. Or the officer who heard the case may instead recommend a decision, and the agency will itself make the initial decision (which is also the final decision). Whichever method the agency chooses to follow, it must observe the

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<sup>25a</sup>§1114(b) provides that "the presiding judge may from time to time by written order designate an attorney from the legal staff of the court to act as a commissioner in a particular case." This procedure is seldom used.

<sup>26</sup>Sections 1103, 1118, Internal Revenue Code.

<sup>27</sup>Section 7(a).

procedures laid down in section 8(b) which provides that—

“Prior to each recommended, initial, or tentative decision, or decision upon agency review of the decision of subordinate officers the parties shall be afforded a reasonable opportunity to submit for the consideration of the officers participating in such decisions (1) proposed findings and conclusions, or (2) exceptions to the decisions or recommended decisions of subordinate officers or to tentative agency decisions, and (3) supporting reasons for such exceptions or proposed findings or conclusions. The record shall show the ruling upon each such finding, conclusion, or exception presented. \* \* \*”

The Act therefore contemplates that whenever the agency does not itself hear a case, the officer who heard it shall write an intermediate opinion from which an appeal or review within the agency shall be available.

As noted above, the Act<sup>28</sup> makes a distinction between (1) the agency, and (2) members of the body which comprises the agency. Accordingly, a Tax Court judge who hears a case is not the agency; he is a member of the body which comprises the agency. While, under section 8, the intermediate report procedure is not required when the agency itself hears the case, it is required when the case is heard by one or more members of the body which comprises the agency. It is therefore required in the usual Tax Court case.

Of course no such procedure as section 8 prescribes is observed in the Tax Court. A party receives no tentative

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<sup>28</sup>Section 7(a).

or intermediate opinion written by the judge who heard the case to which he may file exceptions and seek review by the Court. He receives only the Court's final opinion, from which his sole recourse is to the Courts of Appeal. It is true that he may file, as part of his brief in the Tax Court, proposed findings of fact and conclusions of law. But the import of §8(b) seems clear that a party is to be allowed to file proposed findings prior to the "recommended, initial, or tentative decision" *and* exceptions to such decision upon agency review—not merely proposed findings to a final agency decision. On this phase of the Act, the Attorney General's interpretation seems correct. He says, in his letter to Senator McCarran,<sup>29</sup>

"Section 8(b): Prior to each recommended, initial, or tentative decision, parties shall have a timely opportunity to submit proposed findings and conclusions, and prior to each decision upon agency review of either the decision of subordinate officers or of the agency's tentative decision, to submit exceptions to the initial, recommended, or tentative decision, as the case may be. \* \* \*

If the Tax Court were to follow these procedures, a party would have an opportunity to see, and file exceptions to, the report of the hearing judge. That report would be in the nature of an initial or recommended opinion. He would then have an opportunity to file proposed findings before the Court issued its final opinion.

The courts have not yet passed upon the adequacy of Tax Court procedures under the Administrative Proce-

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<sup>29</sup>Legis. Hist., p. 229.



dure Act. In *MacDonald v. Commissioner*, 5 T. C. M. 1098, a family partnership case, the taxpayer filed a motion<sup>30</sup> asking the Tax Court to vacate its findings, opinion, and decision on the ground that the taxpayer had no opportunity prior to the decision to file exceptions or objections as required by section 8 of the Administrative Procedure Act. The Tax Court denied the motion and the taxpayer appealed to the Sixth Circuit Court of Appeals, urging as one ground for reversal the Tax Court's failure to follow proper procedures under the Administrative Procedure Act.<sup>31</sup> The Court of Appeals on December 11, 1947, affirmed the Tax Court without opinion, ignoring the argument based on the Act.<sup>32</sup>

The reason for the Sixth Circuit's "silent treatment" of the Administrative Procedure Act argument in the *MacDonald* case is far from clear, particularly in view of its earlier pronouncements that it regarded the Tax Court as subject to the Act.<sup>33</sup> In any case, it seems certain that taxpayers will continue to present the issue to the various Circuit Courts and perhaps to the Supreme Court, until a definite ruling is obtained.

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<sup>30</sup>See CCH Dec. 15,563(M).

<sup>31</sup>Section 10(e) of the Act provides that the reviewing court shall "hold unlawful and set aside agency action, findings and conclusions found to be \* \* \* without observance of procedure required by law."

<sup>32</sup>484 CCH ¶9110.

<sup>33</sup>*Lincoln Electric v. Commissioner* and *Dawson v. Commissioner*, *supra*, pp. 8, 9.

### 3. JUDICIAL REVIEW.

The Supreme Court, in *Dobson v. Commissioner*, 320 U. S. 489, directed appellate courts not to upset Tax Court decisions which had a “warrant in the record” or a “rational basis for the conclusions” reached. Tax Court decisions on “mixed questions” of law and fact were to stand. Only if the Appellate Court could separate the elements of a decision so as to identify a “clear-cut mistake of law” might it reverse the Tax Court.

While perhaps the *Dobson* case was intended originally merely to insure that Tax Court decisions be accorded the same finality on review as decisions of other agencies.<sup>34</sup> application of the *Dobson* rule, in some cases at least, appears to have gone considerably beyond this initial objective.<sup>35</sup> The permissible area of review under *Dobson* is at present certainly narrow but otherwise uncertain.<sup>36</sup>

Section 10(e) of the Administrative Procedure Act provides that the reviewing court shall set aside agency action, findings, and conclusions “unsupported by substantial evidence.” It also provides that:

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<sup>34</sup>See *supra*, p. 6.

<sup>35</sup>For the extent to which the principle has been carried, see for example, two Second Circuit cases: *Kirschenbaum v. Commissioner*, 155 F. 2d 23, cert. den. 329 U. S. 726, and *Brooklyn National Corp. v. Commissioner*, 157 F. 2d 450, cert. den. 329 U. S. 733.

<sup>36</sup>See digest of “Dobson” decisions in 484 CCH, ¶1744.25 *et seq.*

“in making the foregoing determinations the court shall review the whole record or such portions thereof as may be cited by any party \* \* \*.”<sup>37</sup>

It may be that in some cases application of these provisions would not cause a court to reach a different result from what it would reach without them.<sup>38</sup> It does seem, however, that the Act has to a considerable degree broadened the area of review prescribed by the *Dobson* case and those which followed it. For example, whereas the Act directs the reviewing court to determine whether there is substantial evidence on the whole record to support the agency's findings, the Supreme Court, in *Commissioner v. Scottish-American Investing Co.*, 323 U. S. 119, 124, seemed to say that the reviewing court's function is exhausted when it finds that there is “any substantial basis in evidence” anywhere in the record to support the Tax Court's conclusions.<sup>39</sup> Therefore, it appears

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<sup>37</sup>The House Report, Legis. Hist., p. 279, explains these provisions as follows: “‘Substantial evidence’ means evidence which on the whole record is clearly substantial, plainly sufficient to support a finding or conclusion \* \* \* and material to the issues. \* \* \* Although the agency must do so in the first instance, under this bill it will be the duty of the courts to determine in the final analysis and in the exercise of their independent judgment whether on the whole of the proofs brought to their attention the evidence in a given instance is sufficiently substantial to support a finding, conclusion or other agency action or inaction.”

<sup>38</sup>See *Dawson v. Commissioner* (C.C.A. 6th, decided Sept. 22, 1947); *Laxton v. Commissioner* (C. C. A. 6th, decided Nov. 24, 1947); *Credit Bureau of Greater New York v. Commissioner*, 162 F. 2d 7 (C. C. A. 2d).

<sup>39</sup>“The judicial eye must not in the first instance rove about searching for evidence to support other conflicting inferences and conclusions which the judges or the litigants may consider more reasonable or desirable. *It must cast directly and primarily upon the evidence in support of those made by the Tax Court.*” (Emphasis added.)

that the Sixth Circuit correctly indicated in the *Lincoln Electric* case that within a certain area application of the review provisions of the Administrative Procedure Act would change the result which a reviewing court would otherwise reach. The precise breadth of this area will of course have to await future decisions.

### C. The Future.

It may be expected that the Supreme Court will eventually provide the answer to the questions discussed in this article unless legislation first makes an answer unnecessary.<sup>40</sup> Such legislation might specifically and directly exempt the Tax Court from part or all of the provisions of the Act, although this would be a departure from the fundamental approach of the sponsors of the Act, placing exemptions on a functional rather than an agency basis.<sup>41</sup> Or the legislation might take the Tax Court outside the Act by making it a court in fact as well as in name.<sup>42</sup> Such a proposal was embodied in H. R. 3214 introduced

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<sup>40</sup>Even legislation, unless retroactive, may not obviate the need for an answer with respect to pending cases.

<sup>41</sup>See H. R. Rept., Legis. Hist., p. 250. "Functional classifications and exemptions have been made, but in no part of the bill is any agency exempted by name. \* \* \* Where one agency has shown that some particular operation should be exempted from any particular requirement, the same function in all agencies has been exempted. No agency has been favored by special treatment."

<sup>42</sup>See *Williams v. U. S.*, 289 U. S. 553, 565, where the Court says that by the provisions of the Tucker Act "it is made plain that the Court of Claims, originally nothing more than an administrative or advisory body, was converted into a court in fact as well as in name \* \* \*."

in the first session of the eightieth Congress,<sup>43</sup> and similar legislation will probably be introduced in the coming session.

Since the Bar has generally regarded Tax Court procedures as satisfactory, any legislation relating to the Court will probably leave these unchanged. The same is not true of the standard of review accorded Tax Court decisions under the *Dobson* rule. *Dobson* was intended to bestow upon Tax Court decisions the same degree of finality generally accorded determinations of other agencies—not a greater degree.<sup>44</sup> If the Administrative Procedure Act standard of review were to apply to decisions of other agencies, but some lesser standard to Tax Court decisions, the situation would indeed be anomolous. Accordingly, it seems likely that legislation affecting the Tax Court will adopt either the substantial evidence rule of the Administrative Procedure Act, or the standard applied to review of Federal District Court decisions.<sup>45</sup> In either case *Dobson* seems doomed.

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<sup>43</sup>See debate on bill in Cong. Rec., July 7, 1947, pp. 8850 *et seq.*, discussing the effect of the Administrative Procedure Act and the *Lincoln Electric* case on the *Dobson* rule and the Tax Court procedures. The House passed the bill and sent it to the Senate Judiciary Committee.

<sup>44</sup>See *supra*, p. 6.

<sup>45</sup>Sec. 1294 of H. R. 3214, 80th Cong., 1st sess., would have made Tax Court decisions reviewable "in the same manner and to the same extent as decisions of the District Courts in cases tried without a jury." See, F. R. C. P. 52.

No. 11805  
IN THE  
United States Circuit Court of Appeals  
FOR THE NINTH CIRCUIT

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EUGENE C. WATSON,

*Appellant,*

*vs.*

DECONHILL STEAMSHIP COMPANY, a corporation,

*Appellee.*

---

APPELLANT'S OPENING BRIEF.

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## TOPICAL INDEX

	PAGE
Jurisdictional statement .....	1
Statement of the case.....	3
Assignment of errors.....	5
Outline of argument.....	5
Argument .....	6

### I.

This appeal is a trial de novo. No authority is necessary to establish this point in the Ninth Circuit.....	6
---	---

### II.

Libelant is entitled to recover the sum of at least \$2,000.00 general damages .....	6
Conclusion .....	8
Appendix. Assignment of errors.....App. p.	1

## TABLE OF AUTHORITIES CITED

### CASES

### PAGE

Andrea F. Luckenbach, The, 78 F. (2d) 827.....	6
New Orleans and C. R. Co. v. Schneider, 60 Fed. 210.....	6
Owen, The, 43 Fed. Supp. 897.....	6

### STATUTES

Act of Congress, Sept. 24, 1789, Chap. 20, Secs. 9, 11; Stat. L. 76, 78 (28 U. S. C. A., Sec. 371).....	3
Jones Act (46 U. S. C. A., Sec. 688).....	1
Judicial Code, Sec. 128-a, 56 Stat. L. 272 (28 U. S. C. A., Sec. 225) .....	3

No. 11805  
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---

APPELLANT'S OPENING BRIEF.

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**Jurisdictional Statement.**

This is an appeal in Admiralty from a final decree in favor of libelant in the United States District Court for the Southern District of California, Central Division, in an action for damages under the Jones Act (46 U. S. C. A. 688), and for maintenance and cure. Appellant sustained a fracture to his left forearm and injuries to his left groin, on or about the 2nd day of December, 1946, as a result of the negligence of the appellee while appellant was employed as a wiper upon the S. S. "Mesa Verde."

The pleadings in the District Court were a libel for maintenance and cure and damages [Ap. 3]; answer of respondent, Deconhill Steamship Company, a corporation [Ap. 8], and amendment to answer of respondent, Deconhill Steamship Company, a corporation [Ap. 13].

A trial was had before the United States District Court with the Honorable J. F. T. O'Connor, Judge presiding. After hearing the evidence, oral testimony and written documents, proctors for libelant and respondent argued the case. The Honorable Judge then found in favor of the libelant upon causes of action under the Jones Act and for maintenance and cure.

Findings of fact and conclusions of law were signed and filed on the 10th day of July, 1947 [Ap. 14]. Proposed modification of the findings of fact were filed by respondent, but were not requested to be made a part of the apostles on appeal.

A final decree was signed and entered on the 10th day of July, 1947 [Ap. 18].

The apostles on appeal, certified by the clerk of the District Court, included the following: petition for appeal with points and authorities [Ap. 20]; order allowing appeal without furnishing bond or costs [Ap. 22]; assignment of errors [Ap. 23]; citation and admission of service thereof [Ap. 2]; praecipe [Ap. 25]; affidavit and order in support of request for extension of time [Ap. 27], and notice of appeal [Ap. 28].

The jurisdiction of the District Court over actions, civil and maritime, involving claims for maintenance and cure and damages, arises from Article III, Sections 1 and 2 of the United States Constitution, which provides that the judicial power of the United States shall be vested in the Supreme Court and such inferior courts as Congress may establish, and that such power shall extend to all civil cause of Admiralty and maritime jurisdiction.

Jurisdiction of civil causes of Admiralty and maritime jurisdiction was vested in the courts of the United States

by the Act of Congress of September 24, 1789, Chapter 20, Sections 9, 11; Stat. L. 76, 78; 28 U. S. C. A. Section 371.

Appeals from final decrees in Admiralty are authorized by Section 128-a of the judicial code, as amended May 9, 1942, (56 Stat. L. 272, 28 U. S. C. A. Section 225), providing that the Circuit Court of Appeals shall have appellate jurisdiction to review, by appeal, final decisions.

### **Statement of the Case.**

On the 2nd day of December, 1946, the appellant was employed as a wiper on the S. S. "Mesa Verde," which vessel was at that time in the harbor of Honolulu, T. H. [Rep. Tr. 23]. Appellant was proceeding through a passage to descend the stairway to the steering engine room when he stepped into a bucket left upon said stairway, which was unlighted, and fell approximately eight or ten feet down the stairway to the deck of the engine steering room [Rep. Tr. 6, 7, 8, 41]. Appellant was knocked unconscious, sustained a fractured left arm and injuries to the left groin, as a result of the fall [Rep. Tr. 7, 9]. Appellant was advised to remain in his bunk and received treatment to the injured arm as the vessel proceeded from Honolulu to San Pedro, the port to which it was bound at the time of the injury [Rep. Tr. 11, 12, 13]. Upon appellant's arrival at San Pedro he was put in the hospital and his arm was placed in a cast [Rep. Tr. 13, 14]. Appellant's arm injury was diagnosed as a simple fracture of the middle third of the left ulna [Rep. Tr. 15].



In January, 1947, appellant was again hospitalized as a result of the injury to his groin for a period of about twelve days [Rep. Tr. 15, 16].

The cast was removed from appellant's arm on January 20, 1947 [Rep. Tr. 26].

Appellant was discharged as an outpatient from the United States Public Health Service on March 5, 1947 [Rep. Tr. 28]. Appellant's left arm still gave him discomfort at the time of the trial of this case on the 19th of June, 1947 [Rep. Tr. 16].

The District Court found that libelant's injuries were the result of his stepping into a bucket, negligently and carelessly left upon the second step of the stairway he was descending which precipitated him to the deck approximately ten feet below and that the negligent and careless leaving of a bucket upon the unlighted stairway leading to the steering engine room was a violation of the obligations respondent owed to libelant; and that the libelant sustained a fracture to his left forearm, bruises and abrasions to his body and a bruise to his left groin [Rep. Tr. 15].

From the evidence, the District Court concluded that the libelant was entitled to receive but \$100.00 damages for the injuries so sustained.

This appeal is directed solely to the insufficiency of damages.

### Assignment of Errors.

The assignment of errors upon which the appellant relies are set forth in the appendix to this brief, and are summarized in the following statement of points involved in this appeal:

a. Did the District Court err in awarding libelant and appellant a nominal sum as general damages for his injuries?

b. Is libelant and appellant entitled to recover a reasonable sum for general damages for a fractured arm and a severe bruise to his left groin, or is he entitled to recover but the nominal sum of \$100.00 although his injuries resulted solely from the negligence and carelessness of respondent and appellee?

### Outline of Argument.

I. This appeal is a trial *de novo*.

II. Libelant is entitled to recover a sum of at least \$2,000.00 general damages for the injuries sustained by him as a result of the negligence of respondent and appellee.

## ARGUMENT.

### I.

**This Appeal Is a Trial De Novo. No Authority Is Necessary to Establish This Point in the Ninth Circuit.**

### II.

**Libellant Is Entitled to Recover the Sum of at Least \$2,000.00 General Damages.**

The Ninth Circuit Court recognizes its power to modify an award of damages where there is no conflict with reference to the injuries in the lower court.

*The Andrea F. Luckenbach*, 78 F. (2d) 827, 9 C. C. A. 1935.

It is universally recognized that an appellate court may modify an inadequate award of the trial court by increasing the same to such amount as it deems adequate.

*New Orleans and C. R. Co. v. Schneider*, 60 Fed. 210;

*The Owen*, 43 Fed. Supp. 897.

The appellant in the case at bar sustained serious injuries. The fracture of his arm required his being hospitalized for several days, during which period his arm was placed in a cast. The cast remained on his fractured arm from approximately December 10, 1946, until January 20, 1947. Thereafter, the arm totally disabled him until March 5, 1947. For the period of approximately

eight days between the 2nd and 10th day of December, 1946, the appellant suffered great pain. During this period, his sole treatment was to bathe the injured arm with Epsom salts and hot water. There was no doctor aboard the vessel to give medical attendance.

It must be borne in mind in arriving at a reasonable amount of damages that the appellant received such injuries that resulted in his losing consciousness for a period of time.

The injury to the appellant's groin required his being hospitalized for approximately twelve days, in addition to the period of time he was hospitalized for the fractured arm. The injury to the groin still was annoying to the appellant six months after the date of his injury, while the pain from the fracture of his left arm did not subside until approximately three to four months.

The Court may take judicial notice of the fact that a dollar at the present date will purchase but approximately one-third of the articles it would have purchased ten years ago, and that an award of damages in the sum of \$3,000.00 at the present date would equal an award of \$1,000.00, approximately ten years ago.

In view of the fact that there is no conflict in the evidence with reference to the injuries and the disability resulting therefrom, and because the damages so awarded by the District Court are strikingly inadequate, this Honorable Court should exercise its power to modify the decree granting the appellant a reasonable award for damages.

**Conclusion.**

It is respectfully submitted that the appellant herein, upon the undisputed evidence, is entitled to an award for general damages in excess of the sum of \$2,000.00, and that the decree of the United States District Court herein should be modified in accordance therewith.

Respectfully submitted,

DAVID A. FALL,

*Proctor for Appellant.*

## APPENDIX.

### Assignment of Errors.

#### I.

The District Court erred in finding that the libelant sustained damages for pain and suffering by reason of his said injuries in the sum of one hundred dollars (\$100.00).

#### II.

The District Court erred in concluding that libelant was entitled to receive but one hundred dollars (\$100.00), for pain and suffering resulting from a fracture of his left arm, bruises and abrasions to his body and a bruise to his left groin.

#### III.

The District Court erred in not finding that the libelant sustained damages for pain and suffering by reason of a fractured arm, bruises and abrasions to his body, and a bruise to his left groin, in the sum of at least two thousand dollars (\$2,000.00).

#### IV.

The District Court erred in not concluding that libelant was entitled to recover the sum of two thousand dollars (\$2,000.00), for pain and suffering.

The District Court erred in not entering a final decree in favor of libelant and against respondent, in the sum of two thousand three hundred fifty-two dollars (\$2,352.00).





No. 11805.

IN THE

United States Circuit Court of Appeals  
FOR THE NINTH CIRCUIT

---

EUGENE C. WATSON,

*Appellant,*

*vs.*

DECONHIL STEAMSHIP COMPANY, a corporation,

*Appellee.*

---

BRIEF OF APPELLEE.

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FILED

MAY 13 1948

PAUL F O'BRIEN CLERK

LASHER B. GALLAGHER,  
720 Rowan Building, Los Angeles 13,  
*Proctor for Appellee.*



## TOPICAL INDEX

	PAGE
Jurisdictional statement .....	1
Statement of the pleadings.....	19
Statement of the evidence.....	22
Argument .....	24
Point I. The credibility of the appellant was impeached and the trial judge did not believe his testimony with reference to the extent of his claimed pain and suffering.....	24
Point II. The trial court erred in not finding that the allega- tions set forth in the amendment to the answer were true....	25
Point III. The evidence is insufficient to support a judgment in favor of appellant on the theory that the appellee was his employer .....	26
Conclusion .....	31

## TABLE OF AUTHORITIES CITED

CASES	PAGE
Barbier v. Connolly, 113 U. S. 27.....	6
Byrne v. Kansas City, Ft. S. & M. R. R. Co., 61 Fed. 605.....	30
Denton v. Yazoo & M. V. R. R. Co., 284 U. S. 305.....	28
French v. Barber Asphalt Paving Co., 181 U. S. 324.....	5
Garrett v. Moore-McCormack Co., 317 U. S. 239, 87 L. Ed. 239	9
Hardy v. Shedden Co., 78 Fed. 610.....	30
McLamb v. DuPont, 79 F. (2d) 966.....	30
Minneapolis & St. L. R. Co. v. Bombolis, 241 U. S. 211, 60 L. Ed. 961 .....	8
Norfolk & W. Ry. Co. v. Hall, 57 F. (2d) 1004.....	30
Pacific S. S. Co. v. Peterson, 278 U. S. 130, 73 L. Ed. 220.....	3
Panama R. Co. v. Johnson, 264 U. S. 375, 68 L. Ed. 748.....	10, 16
Pearson v. Yewdall, 95 U. S. 294.....	5
Simons, Re, 247 U. S. 231.....	5
Standard Oil Co. v. Anderson, 212 U. S. 215.....	29
Truax v. Corrigan, 257 U. S. 312.....	6
Van Camp Sea Food Co. v. Nordyke, 140 F. (2d) 902, 1944 A. M. C. 559.....	16

## STATUTES

Executive Order No. 9054 (7 Fed. Reg. 937).....	26
Executive Order No. 9244 (7 Fed. Reg. 7327).....	26
Federal Employers' Liability Act (45 U. S. C. A., Sec. 51).....	2
Federal Rules of Civil Procedure, Rule 12(b).....	14
General Admiralty Rule 44.....	13
Jones Act (46 U. S. C. A., Sec. 688).....	1
Judicial Code, Sec. 24.....	13
Judicial Code, Sec. 256.....	13

	PAGE
Rules of Procedure for the United States District Court, Rule 29 .....	14
United States Code, Title 50, App. Sec. 1295.....	27
United States Code Annotated, Title 45, Sec. 53.....	4
United States Constitution, Art. III, Sec. 2.....	11, 13
United States Constitution, Fifth Amendment.....	4, 5, 11, 12
United States Constitution, Seventh Amendment.....	5, 9, 11
United States Constitution, Fourteenth Amendment.....	5, 6

#### TEXTBOOKS

61 American Law Reports, p. 290.....	30
--------------------------------------	----





No. 11805.  
IN THE  
**United States Circuit Court of Appeals**  
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EUGENE C. WATSON,

*Appellant,*

*vs.*

DECONHIL STEAMSHIP COMPANY, a corporation,

*Appellee.*

---

**BRIEF OF APPELLEE.**

---

**Jurisdictional Statement.**

The appellant commenced a suit in Admiralty against appellee in the United States District Court, Southern District of California, Central Division, purportedly pursuant to the provisions of the statute commonly known as the Jones Act (Title 46, U. S. C. A., Sec. 688). The appellant alleges in the First Article of his libel that the principal place of business of the appellee was in the County of Los Angeles, State of California. There is no allegation in the libel stating that the appellant and appellee were, at the time of the alleged injury, engaged in interstate or foreign commerce. There is no allegation that there was any defect or insufficiency in the vessel or its appliances. There is no allegation that any fellow servant of appellant negligently did any act or negligently failed to do any act. All that the libel alleges with refer-

ence to claimed negligence is a conclusion in the Tenth Article that "libelant stepped into a bucket negligently and carelessly left upon said second step of said stairway, precipitating and throwing the plaintiff (*sic*) to the deck below, a distance of approximately ten feet." [Ap. 6.]

The Jones Act, in so far as it is relevant here, provides, in part, as follows:

"Any seaman who shall suffer personal injury in the course of his employment may, at his election, maintain an action for damages at law, with the right of trial by jury, and in such action all statutes of the United States *modifying* or *extending* the common law right or remedy in cases of personal injury to railway employees *shall* apply; . . . Jurisdiction in such actions shall be under the court of the district in which the defendant employer resides or in which his principal office is located." (Emphasis added.)

The only statute of the United States modifying or extending the common law right or remedy in cases of personal injury to railway employees is the Federal Employers' Liability Act, found in 45 U. S. C. A., Secs. 51, *et seq.*

Appellee is familiar with the decisions of the United States Supreme Court, various Circuit Courts of Appeal and *nisi prius*, that the language "jurisdiction in such actions shall be under the court of the district in which the defendant employer resides or in which his principal office is located" means nothing more than venue.

It is an elementary rule that the doctrine *stare decisis* has no application whatever in any case where the particular point raised was not decided, even though it was

dormant in the case and lurked within the record. The United States Supreme Court has adverted to this elementary principle in *Pacific S. S. Co. v. Peterson*, 278 U. S. 130, 73 L. Ed. 220, as follows:

“And while an incidental statement in the Engel Case at p. 36, if taken broadly, might well be understood to mean that the right to recover compensatory damages under the new rule was granted as an alternative to the allowances covered by the old rules, including maintenance, cure and wages, this was at the most a general expression respecting a particular as to which no question was raised,—no allowance for maintenance, cure, and wages being there involved,—which ought not to control the judgment in a subsequent suit when the very point is presented for decision (citing cases), or to prevent the determination as an original question of the proper construction of the statute in *that* particular.” (Emphasis added.)

Appellee raises certain points which it does not believe have ever been decided by the United States Supreme Court in connection with the question of jurisdiction. If, as the Jones Act plainly says, all statutes of the United States modifying or extending the common law right or *remedy* in cases of personal injury to railway employees *shall* apply then it is a certainty that the employer has as much right to a jury trial as has the employee. Under the provisions of the Federal Employers' Liability Act injured employees must bring their actions either in a state court or on the *law side* in a federal court. Under the law, including not only the Federal Employers' Liability Act, but the rules of Civil Procedure, either party is entitled as a matter of right to a trial by jury.

It is the contention of the appellee in the case at bar that any construction of the Jones Act, bottomed as it is on portions of the Federal Employers' Liability Act, which deprives the employer of the right to a trial by jury, is in contravention of the provisions of the Fifth Amendment to the Constitution of the United States. One of the fundamental requisites of due process of law is that there be no favoritism shown by any court to one of the parties to an action. The appellee in the case at bar is entitled to the equal protection of the laws. Section 53 (45 U. S. C. A.) states that the *jury* may diminish the damages in proportion to the amount of negligence attributable to the injured employee. This is one of the sections which modifies the common law right of a railway employee for the reason that under the common law contributory negligence was a complete bar. Therefore, as a matter of law, Section 53 *shall* apply as provided in the Jones Act.

Appellee further contends that a fair, impartial construction of the Jones Act precludes any court from holding that the words "with the right of trial by jury" do not give the employer as much right to such trial as they do to the employee. The statute does not say that the seaman may elect *not* to have a trial by jury and thereby preclude the employer from having the right of trial by jury. The statute plainly says that if the seaman elects to take advantage of the provisions of the Jones Act there is a right of trial by jury and such right is a substantial right vested in each of the parties. Such right can only be waived in the manner provided by law in accordance with the provisions of the Rules of Civil Procedure.

Any court-made rule which deprives either party to an action of the right to a trial by jury contravenes the due

process clause of the Fifth Amendment to the Constitution of the United States.

The general scope of the prohibitions of the Fifth Amendment as against the Federal Government is frequently measured by the settled scope of the Fourteenth Amendment as against the States. The Court has proceeded on the assumption "that the legal import of the phrase 'due process of law' is the same in both amendments." (*French v. Barber Asphalt Paving Co.*, 181 U. S. 324, 329.)

Amendment VII, Constitution of the United States, provides in suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any court of the United States, than according to the rules of the common law. This amendment applies only to courts sitting under the authority of the United States but it does apply to such courts. (*Pearson v. Yewdall*, 95 U. S. 294.)

An order of a federal district court transferring a count in an action at law for damages, to the equity docket upon the ground that under the law of the State it could not be entertained at law, is a deprivation of the right of trial by jury. (*Re Simons*, 247 U. S. 231.)

It is the direct contention of the appellee in the case at bar that it is entitled, as a matter of right, pursuant to the Fifth Amendment and the Seventh Amendment to the Constitution of the United States to a trial by jury.

Turning now to the Fourteenth Amendment, we find that the essentials of due process require that equal protection and security should be given to all under like circumstances in the enjoyment of their personal and civil



rights and that no impediment should be interposed to the pursuits of any one except as applied to the same pursuits by others under like circumstances. (*Barbier v. Connolly*, 113 U. S. 27.)

The provision of the Fourteenth Amendment which forbids any state to deny to any person the equal protection of the laws is associated in the amendment with the due process clause and it is customary to consider them together. It may be that they overlap, that a violation of one may involve at times the violation of the other, but the spheres of the protection they offer are not coterminous. The due process clause tends to secure equality of law in the sense that it makes a required minimum of protection for every one's right of life, liberty, and property, which the Congress or the legislature may not withhold. Our whole system of law is predicated on the general, fundamental principle of equality of application of the law. But the framers and adopters of this amendment were not content to depend on a mere minimum secured by the due process clause, or upon the spirit of equality which might not be insisted on by local guaranty. The guaranty was aimed at undue favor and individual or class privilege, on the one hand, and at hostile discrimination or the oppression of inequality, on the other. It sought an equality of treatment of all persons, even though all enjoyed the protection of due process. (*Truax v. Corrigan*, 257 U. S. 312.)

The Jones Act uses plain, unambiguous language. It does not say that "any seaman who shall suffer personal injury in the course of his employment as a proximate result of negligence on the part of any agent or servant of his employer may maintain an action for damages in

any court of competent jurisdiction." The statute says very plainly that any seaman who shall suffer personal injury in the course of his employment may, at his election, maintain an action for damages at law, with the right of trial by jury, and in *such* action all statutes of the United States modifying or extending the common law right in cases of personal injury to railway employees *shall* apply. In plain words the Congress placed seamen *and the employers of seamen* in exactly the same legal position as railway employees and their employers pursuant to the Federal Employers' Liability Act to the extent that said Federal Employers' Liability Act *modified* or *extended* the common law right or *remedy* in such cases. No one will contend that the employee of a railway could, regardless of whether he commences his action in a state or federal court, deprive the employer of the absolute right of trial by jury. An action under the Jones Act, according to its plain language is "an action for damages at law," with the right of trial by jury. The statute does not say that the seaman pursuing his right to maintain an action for damages at law may elect whether such action will be tried by a court sitting without a jury or by a court sitting with a jury.

Appellee calls to the attention of this Honorable Court the fact that the United States Supreme Court has never been called upon to consider or decide what is meant by the language "all statutes of the United States *modifying* or *extending* the common law right or remedy in cases of personal injury to railway employees." Prior to the enactment of the Federal Employers' Liability Act, an employee of a railroad, engaged in intrastate or interstate commerce, had a right of action for damages under the common law, in the event he was injured as the

proximate result of a negligent failure on the part of his employer to furnish a reasonably safe place in which to work or reasonably safe tools and appliances with which to do the work. Such employee could not recover in the event he was guilty of contributory negligence, and assumption of risk was also a complete defense. The common law right available to such employees was modified by the Federal Employers' Liability Act because it gave to such employee the right to recover something in any event, regardless of his contributory negligence, by reason of any injury resulting in whole or in *part* from the negligence of any of the officers, agents or employees of such carrier, or by reason of any defect or insufficiency, due to *its* (the railroad company's) negligence in its cars, engines, appliances, machinery, track, roadbed, works, boats, wharves, or other equipment. Probably the most important modification of the common-law was the removal of the defense based on the fellow-servant doctrine.

In *Minneapolis & St. L. R. Co. v. Bombolis*, 241 U. S. 211, 60 L. Ed. 961, the Court says:

“The proposition that, as the 7th Amendment is controlling upon Congress, its provisions must therefore be applicable to every right of a Federal character created by Congress, and regulate the enforcement of such right, but in substance creates a confusion by which the true significance of the Amendment is obscured. That is, it shuts out of view the fact that the limitations of the Amendment are applicable only to the mode in which power or jurisdiction shall be exercised in tribunals of the United States, and therefore that its terms have no relation whatever to the enforcement of rights in other

forums merely because the right enforced is one conferred by the law of the United States. And of course it is apparent that to apply the constitutional provision to a condition to which it is not applicable would be not to interpret and enforce the Constitution, but to distort and destroy it.

A Court of Admiralty cannot entertain an "action at law" or afford a trial by jury. The decisions of the various federal courts upholding the right of a seaman to proceed on the admiralty side of the court also ignore that provision of the Seventh Amendment which guarantees that no fact tried by a jury shall be otherwise re-examined in any court of the United States than according to the rules of the common law for the reason that the Circuit Courts of Appeal and the United States Supreme Court have decided that in all appeals prosecuted from decrees entered in maritime causes of action tried on the admiralty side of the court there is a trial *de novo* and that the Appellate Court may ignore the findings of fact made by the trial judge. This rule also is in direct conflict with the decision of the United States Supreme Court that the administration of the substantive rules applicable in fixing liability in all maritime causes of action shall be uniform throughout the courts of the United States and *common law courts* in the various States.

A classic example of the statement of this rule is the very recent decision of the United States Supreme Court in *Garrett v. Moore-McCormack Co.*, 317 U. S. 239, 87 L. Ed. 239, where the Court says:

"It must be *remembered* that the state courts have *concurrent* jurisdiction with the federal courts to try actions either under the Merchant Marine Act or in

*personam* such as maintenance and cure. The source of the governing law applied is in the national, not the state, government. If by its practice the state court were permitted substantially to alter the rights of either litigant, as those rights were established in federal law, the *remedy* afforded by the state would not enforce, but would actually deny, federal rights which Congress, by providing alternative remedies, intended to make not less, but more secure. The constant objective of legislation and jurisprudence is to assure litigants *full* protection for *all* substantive rights intended to be afforded them by the jurisdiction in which the right itself originates. Not so long ago we sought to achieve this result with respect to enforcement in the federal courts of rights created or governed by state law. And Admiralty courts, when invoked to protect rights rooted in state law, endeavor to determine the issues in accordance with the substantive law of the State. So here, in trying this case the state court was bound to proceed in such manner that all the substantial rights of the parties under controlling federal law would be protected. Whether it did so raises a federal question reviewable here under Section 237(b) of the Judicial Code, 28 USCA Sec. 344(b)." (Emphasis added.) (317 U.S. at 245, 246, 87 L. Ed. 243, 244.)

Appellee calls the attention of this Honorable Court to the decision of the United States Supreme Court in *Panama R. Co. v. Johnson*, 264 U. S. 375, 68 L. Ed. 748. It is essential to keep in mind in reading this decision that Johnson commenced an action for damages on the *law* side of the District Court of the Eastern District of New York and that there was an actual trial by jury. Therefore the specific question whether the deprivation of a



trial by jury when demanded by an employer in any action prosecuted under the Jones Act contravened the rights of the employer guaranteed by the Fifth Amendment and the Seventh Amendment to the Constitution of the United States was not before the court and whatever was said by the court in the course of its decision on that subject is *obiter dicta*. Johnson did not bring his action in the district of the defendant's residence or principal office and the defendant objected that the District Court could not entertain it. The objection was not made on a special appearance but after the defendant had appeared generally and demurred to the complaint. The trial court thought the objection went to the venue only and was waived by a general appearance. The Federal Rules of Civil Procedure were not then in existence. The objection was overruled (277 Fed. 859). Error was assigned on that specific ruling when the case was argued before the United States Supreme Court.

The defendant also attacked the Jones Act upon the ground that it was in conflict with Section 2 of Article III of the Constitution which extends the judicial power of the United States to all cases of admiralty and maritime jurisdiction. The Court says:

"The particular grounds on which a conflict with Sec. 2 of article 3 is asserted are that the statute enables a seaman asserting a cause of action essentially maritime to withdraw it from the reach of the maritime law and the admiralty jurisdiction, and to have it determined according to the principles of a different system, applicable to a distinct and irrelevant field, and also disregards the restriction in respect of uniformity. For reasons which will be stated we think neither ground can be sustained. (264 U. S. at 387, 68 L. Ed. at 753.)"



The only other constitutional point asserted was that the Jones Act conflicts "with the due process of law clause of the Fifth Amendment, in that it permits injured seamen to elect between varying measures of redress and between different forms of action without according a corresponding right to their employers, and therefore is unreasonably discriminatory and purely arbitrary. The complaint is *not* directed against either measure of redress or either form of action, but *only against the right of election as given*. Of course, the objection must fail." (264 U. S. at 392, 68 L. Ed. at 755.) (Emphasis added.)

The Panama Railroad Company was not, under the facts, entitled to raise the objection that the *assumed* right of a seaman to elect whether he would proceed on the admiralty side or the law side of a federal court violated any constitutional right of the defendant for the simple reason that the action was brought on the common law side of a District Court of the United States and a jury trial was had.

The United States Supreme Court was not called upon to decide whether the words "at his election" as used in the Jones Act meant an election as between various forums or even whether those words referred to election of remedies. The decision of the Honorable Supreme Court indicates, although proctor for appellee has not read the briefs in that case or the assignments of error, that the railroad company assumed as the premise of its contention that the statute contravened the Fifth Amendment to the Constitution and that the phrase "at his election" referred to the right of the seaman to commence his action in a United States District Court on the admiralty side or on the law side or in a state court. Ap-

pellee here contends that the phrase "at his election" was used by the Congress in light of the well known and elementary rules respecting election of *remedies*,—not selection of a particular *forum*. This contention is fortified by a résumé of the rights of a seaman suffering personal injury prior to the enactment of the Jones Act. In each such case, there being no statute of the United States specifying particularly, or otherwise or at all, that any seaman suffering personal injury in the course of his employment might maintain an action for damages at law, with or without the right of trial by jury, all actions by seamen who had suffered personal injury while acting in the course of their employment were governed by Section 2, Article 3 of the Constitution of the United States which states that "the judicial power (of the United States) shall extend . . . to all cases of admiralty and maritime jurisdiction" and Sections 24 and 256 of the Judicial Code whereby the district courts are given exclusive original jurisdiction "of all civil causes of admiralty and maritime jurisdiction, saving to suitors in all cases the right of a common law remedy where the common law is competent to give it."

There is an important distinction between the manner in which the improper venue could have been raised at the time Johnson filed his action against the Panama Railroad Company and the law with respect thereto in effect when appellant filed his action here. General Admiralty Rule 44 provides that:

"In suits in admiralty in all cases not provided for by these rules or by statute, the district courts are to regulate their practice in such a manner as they deem most expedient for the due administration

of justice, provided the same are not inconsistent with these rules.”

There is absolutely nothing in the general admiralty rules promulgated by the United States Supreme Court which provides a method by which an alleged employer-respondent sued in a Jones Act case in a court of a district other than the district in which the employer resides or in which his principal office is located, may object to the fact that the employer has been sued in a district other than the district in which his principal office is located, prior to the filing of an answer. In the case at bar the appellant, although under oath, falsely alleged that the Deconhil Shipping Company had “its principal place of business in the County of Los Angeles, State of California.” [Ap. 3.]

The local rules promulgated by the Judges of the District Court of the United States, for the Southern District of California, provide that:

“Whenever a procedural question arises which is not covered by the provisions of any statute of the United States, or of the FRCP, or of these rules, it shall be determined, if possible, by the parallels or analogies furnished by such statutes and rules. If, however, no such parallels or analogies exist, then the procedure heretofore prevailing in courts of equity of the United States, shall be applied or, in default thereof, the court may proceed in any lawful manner not inconsistent with these rules or with any applicable statute.” (Rule 29.)

Pursuant to the foregoing local rule, it is clear that the appellee was entitled to present its defense of improper venue in its pleading responsive to the libel according to the provisions of Rule 12(b) F. R. C. P.

Pursuant to the basic law set forth in the Constitution and implemented by the statute as contained in the Judicial Code, an injured seaman could maintain an action for damages for personal injuries in the event he suffered injury in consequence of the unseaworthiness of the vessel or a failure on the part of his employer to furnish and keep in order the proper appliances appurtenant to the ship, in any of the following forums:

1. On the admiralty side of a district court of the United States;
2. On the law side of a district court of the United States;
3. In any state court where jurisdiction over the person of the employer could be obtained.

If the seaman maintained his action on the law side of a district court of the United States or in any state court, both or either of the parties could, as a matter of right, demand a jury trial.

Of course, the Judicial Code, if constitutional when applied to causes of admiralty and maritime jurisdiction commenced on the law side of the court, would require the stating of a cause of action in excess of the minimum jurisdictional amount and the existence of diversity of citizenship.

Considerable doubt is cast upon the soundness of any contention that the law side of a United States District Court would be without jurisdiction in the absence of allegations showing a dispute in excess of the ordinary jurisdictional amount in any maritime cause of action by

an incidental statement in the case of *Panama R. Co. v. Johnson*, 264 U. S. 375, at 383, 384, where the Court said:

“The case arose under a law of the United States and involved the requisite amount, *if any was requisite*; so there can be no doubt that the case was within the general jurisdiction conferred on the district courts by Sec. 24 of the Judicial Code . . .” (Emphasis added.)

Appellee also cites the decision of this Honorable Court in *Van Camp Sea Food Co. v. Nordyke*, 140 F. (2d) 902, 1944 A. M. C. 559. In that case this Honorable Court was presented with a direct contention that the law side of the district court had no jurisdiction to hear and determine either cause of action alleged in the complaint because there was no allegation or proof of diverse citizenship. This Court stated, in answering that contention, as follows:

“The Jones Act is a remedial statute and as such it should be liberally construed to accomplish the declared object of the legislation, ‘to provide for the promotion and maintenance of the American merchant marine.’ This desideratum must be attained in consonance with the plain meaning of the wording of the statute.

The *sole* jurisdictional provision incorporated in the Act is that ‘Jurisdiction in such actions shall be under the court of the district in which the defendant employer resides or in which his principal office is located.’ This requirement is a modification of that imposed by the Judiciary Act, 1 Stat. 76, 77, relating to other suits of a civil nature at common law, and when fulfilled confers on a District Court



of the United States the requisite authority to hear and determine an *action at law* for damages by an injured seaman regardless of his citizenship.” (Emphasis added.) (140 F. (2d) at 904, 905.)

A Petition for Writ of Certiorari was filed by the Van Camp Sea Food Company in the foregoing case and seven questions were presented for the consideration of the Court. Question No. 2 is as follows:

“In the absence of allegations and proof showing diversity of citizenship, may a seaman maintain an action for damages at law in a United States District Court, when his claim is predicated upon an alleged negligent failure on the part of the master of a vessel to provide medical care?”

In the Specifications of Error to be urged in the United States Supreme Court, the petition stated, in part, that the “Circuit Court of Appeals erred in holding that the law side of the District Court of the United States had jurisdiction to hear and determine either cause of action alleged in the complaint.”

The petitioners in their petition for writ of certiorari and brief in support thereof quoted that portion of the judgment of this Honorable Court, hereinabove set forth (140 F. 2d, at 904, 905) and the brief presented the following argument on the subject:

“If the foregoing statement is correct, an injured seaman would also be entitled to maintain an action at law for damages in a district court of the United States with a jury furnished at the expense of the taxpayers, even though the amount involved were only five dollars.



“This part of the decision of the court below is squarely in the teeth of the decisions of this Honorable Court in *Panama R. Co. v. Johnson*, 264 U. S. 375, 68 L. Ed. 748 and *Engel v. Davenport*, 271 U. S. 33, 70 L. Ed. 813, in each of which the Court said that the Jones Act had nothing whatever to do with the general jurisdiction of the district courts and that the language referred to by the court below relates to *venue* only.”

The United States Supreme Court denied said petition for writ of certiorari on June 5, 1944 (322 U. S. 760, 88 L. Ed. 1587). It must, therefore, be assumed that the Supreme Court approved the statement of the law with reference to jurisdiction as set forth in the judgment of this Honorable Court. If that statement made by this Court is correct, then it is obvious that the District Court of the United States, on the admiralty side, has no jurisdiction of the cause of action or the person of appellee.

In addition to the foregoing points and authorities, appellee directs the attention of this Honorable Court to the proposition that one of the modifications of the therefore existing common law right or remedy in cases of personal injury to railway employees was the proviso, in the Federal Employers' Liability Act, that its provisions were applicable only with reference to a railway employee injured while he is employed by a common carrier “while engaging in commerce between any of the several states or territories, or between any of the states and territories, or between the District of Columbia and any of the states or territories, or between the District of Columbia or any of the states or territories and any foreign nation or nations.”

Appellee contends that it clearly follows from a consideration of the statutes involved that the Honorable Trial Court was without jurisdiction to entertain the claimed cause of action of the appellant. Some courts have assumed that the Jones Act adopted by reference thereto the Federal Employers' Liability Act. This assumption is fallacious because only those portions of the Federal Employers' Liability Act which modified or extended the theretofore existing common law right or remedy applicable to cases of personal injury sustained by railway employees were incorporated in the Jones Act.

### Statement of the Pleadings.

The appellant does not call the attention of this Honorable Court to the allegations in the libel or the issues raised by the Answer of the appellee. As already pointed out, the libel alleges that the appellee had its principal place of business in the County of Los Angeles, State of California. [Ap. 3.] The Answer admitted that the appellee was and is a corporation organized and existing under and by virtue of the laws of the State of California and licensed to do business therein "but denies that its principal place of business is in the County of Los Angeles and alleges that its principal place of business is in the city and county of San Francisco, State of California." [Ap. 8.]

The Third Article in the libel alleges "that at all times herein mentioned the Deconhil Shipping Company was and is the operator of and owner *pro hac vice* of the said S.S. 'Mesa Verde', for and in behalf of the United States of America, acting by and through the War Shipping Administration." [Ap. 4.] In its Answer appellees "denies

the allegations and each thereof in the Third Article.”  
[Ap. 9.]

The foregoing allegations in the first cause of action of the libel are incorporated in the second cause of action (the cause of action for damages for personal injuries) and the Answer of the appellee to the allegations of the first cause of action were incorporated by reference thereto in its answer to the allegations in the second cause of action. [Ap. 10.]

In the Ninth Article the libel states certain legal conclusions which, of course, are redundant and irrelevant matter inserted in the pleading and will be ignored by this Honorable Court in determining whether or not the libel states facts sufficient to constitute a cause of action.

In the Tenth Article the appellant alleges that “while descending an unlighted stairway to the steering engine room, libelant stepped into a bucket negligently and carelessly left upon said second step of said stairway, precipitating and throwing the plaintiff (*sic*) to the deck below, a distance of approximately ten feet.” [Ap. 6.] This Article does not allege any facts. The recital that the bucket was “negligently and carelessly left upon said second step of said stairway” does not satisfy the requirements of pleadings in admiralty causes of action. Negligence cannot be alleged generally but the particular act must be specified. There is no allegation in the libel that the appellee had anything whatsoever to do with the leaving of any bucket upon any step of the stairway. There is no allegation in the libel that any agent or employee of the appellee, acting in the course of his employment, or otherwise, left the bucket upon the second step of the stairway. It can be reasonably inferred from the allegations of the libel that the appellant himself had left the bucket

on the step, if any member of the crew had done so. There is no allegation in the libel stating that the only persons aboard the vessel were employees of appellee. Therefore it cannot be inferred that if some person did leave a bucket upon the step that it must have been some employee of appellee. In any event, the Answer denied the allegations of conclusions set forth in the Tenth Article. [Ap. 11.]

The Eleventh Article is nothing but a conclusion of the pleader.

The libelant fails to allege the following required facts in order to state a cause of action pursuant to the Jones Act:

1. There is no allegation that the appellant was a seaman in the employ of appellee.
2. There is no allegation of facts showing that any injury sustained by appellant resulted in whole or in part from the negligence of any agent or employee of appellee or by reason of any defect or insufficiency, due to appellee's negligence, in the vessel or its appliances or equipment.
3. There is no allegation that the appellant was injured while engaging in interstate or foreign commerce or that the appellee was engaged in interstate or foreign commerce.
4. There is no allegation that the vessel was a merchant vessel. As a matter of fact the libel precludes any inference that the vessel was being operated as a part of the merchant marine or as a vessel engaged in commerce of any kind. The Third Article alleges that the S.S. Mesa Verde was being operated "for and in behalf of the United States of America, acting by and through the *War Ship-*

*ping Administration.*" [Ap. 4.] Therefore it appears on the face of the libel that the vessel was a public vessel for the simple reason that the War Shipping Administration had nothing to do with commerce of any kind.

5. There is no allegation in the libel stating that the principal office of Deconhil Shipping Company was or is located in the Southern District of California.

The libel, because of the foregoing omissions and each thereof, does not comply with the requirements of General Admiralty Rule 22. That rule requires that "the libel shall also propound and allege in distinct articles the various allegations of fact upon which the libelant relies in support of his suit, so that the respondent or claimant may be enabled to answer distinctly and separately the several matters contained in each article." This rule precludes any allegation of a conclusion and requires that all facts upon which a libelant must rely in support of his suit shall be stated clearly and distinctly.

### Statement of the Evidence.

The evidence consisted of the testimony of the appellant and Charles M. Rathbun, the master of the vessel, and the following exhibits: Libelant's Exhibit No. 1 consists of four abstracts showing diagnosis and medical treatment; Respondent's Exhibit A is a photostatic copy of the Shipping Articles; Respondent's Exhibit B, for identification, is a photograph; Respondent's Exhibit C is a report of accident prepared by the purser of the vessel and signed by the master.



Appellant, Eugene C. Watson, testified that he went to his quarters and then went direct downstairs and there happened to be a bucket there there on the steps; he couldn't see; it was dark and the light in the hallway was out; just burned out; that as he stepped onto the place to go down the steps it was a pretty steep incline, about a 45-degree, and that as he stepped down he couldn't see very well but had a hold of the handrail and let go of the rail and stepped into the bucket. [R. T. 6-7.]

Appellant testified that his arm was swollen. [R. T. 13.] However, the master of the vessel testified that when he saw the appellant a day or two after the vessel left Honolulu, the appellant claimed he couldn't sleep because his arm hurt him so bad. The master testified:

“ . . . So I examined the arm, and there wasn't any outward appearance of anything wrong.”

Appellant had no other sign of injury about him any place that the master could see excepting on the left arm and that the appellant complained of no injury or hurt any place else. [R. T. 39.]

The appellant also told the master that he had been hurt by a truck ashore while crossing the street. [R. T. 38.]

In the accident report which was made out by the purser before the vessel arrived in California, the following statement appears:

“Mr. Watson was ashore and struck by a truck, at time not thinking anything was wrong. However, when returned to the ship he fell down the ladder aft below the crew mess room.” [R. T. 43.]



## ARGUMENT.

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### POINT I.

#### **The Credibility of the Appellant Was Impeached and the Trial Judge Did Not Believe His Testimony With Reference to the Extent of His Claimed Pain and Suffering.**

In the libel the appellant alleged positively, under oath, that he "sustained a fracture of the bones in the left forearm." [Ap. 4.] The evidence introduced demonstrates that there was a simple inconsequential fracture of the ulna of appellant's left arm. The fracture did not even cause any separation of the bone. The trial judge was entitled to disbelieve the entire testimony of appellant with reference to alleged pain and suffering not only because of the loose manner in which he made his allegations in the libel but for the additional reason that the testimony of the master of the vessel and the report of accident prepared by the purser and signed by the master were, and each thereof was, sufficient to impeach the appellant. The trial judge allowed the appellant the total sum of \$400.00 as damages for personal injuries, consisting of \$300.00 for loss of wages and \$100.00 for pain and suffering. The trial court was also entitled to compare the allegations under oath in the Seventh Article with the position taken by the appellant at the trial. It was conceded by proctor for appellant that the absolute limit of maintenance to which the appellant was entitled

was the sum of \$52.00. In other words it was conceded at the trial that the appellant had been paid maintenance for all time excepting 15 days [R. T. 52-53] where Mr. Fall, proctor for Appellant, stated:

“Incidentally, there is an additional day’s maintenance to which he is entitled, and that would be the 13th day of December of 1946; so instead of \$49, there would be another \$3.50, which is only \$52.50.” [R. T. 53.]

## POINT II.

### **The Trial Court Erred in Not Finding That the Allegations Set Forth in the Amendment to the Answer Were True.**

The Amendment to the libel is set forth in the Apostles at page 13. When the case was being orally argued before the trial judge, proctor for appellant objected to any consideration of contributory negligence for the reason that it was not pleaded in the original Answer. Proctor for Appellee obtained leave of Court to file an amendment to the Answer as follows:

“I would ask leave at this time to file an answer to conform with the proof to set up the special defense of negligence on the part of the libelant, proximately contributing to his own injury in the event the court finds that he was injured on this stairway, but alleging in substance as follows:

“That if, in fact, the libelant was injured by falling down the stairway referred to in the libel, the said libelant negligently and carelessly failed to use the hand railings on each side of the stairway and negligently and carelessly failed to attempt to look where he was going and negligently and carelessly

went to a dark stairway and a dark place and as a proximate result thereof sustained any injury which the court may find he did sustain." [R. T. 58-59.]

The Court allowed the amendment. The trial Judge must therefore have considered that such a special defense was in conformity with the proof and it is difficult to understand how the trial Judge made the finding "that the allegations and each thereof contained in the Separate and Special Defense of Respondent are untrue." [Ap. 16.]

### POINT III.

#### **The Evidence Is Insufficient to Support a Judgment in Favor of Appellant on the Theory That the Appellee Was His Employer.**

The Shipping Articles show that the War Shipping Administration was the actual employer of the Appellant. Executive Order No. 9054, 7 Fed. Reg. 937, as amended by Executive Order No. 9244, 7 Fed. Reg. 7327, pursuant to which the President established within the office for Emergency Management of the Executive Office of the President, a War Shipping Administration, under the direction of an Administrator appointed by and responsible to the President, provides that the *Administrator*—not the owner of any vessel—"shall" perform the following functions and duties:

"The Administrator shall perform the following functions and duties: a. Control, the operation, purchase, charter, requisition, and use of all ocean vessels under the flag or control of the United States, except (1) combatant vessels of the Army, Navy, and Coast Guard; fleet auxiliaries of the Navy; and

transports owned by the Army and Navy; and (2) vessels engaged in coastwise, intercoastal, and inland transportation under the control of the Director of the Office of Defense Transportation." (Title 50, U. S. C., App., Sec. 1295.)

The allegation in the libel that the appellee "was and is the operator of and owner *pro hac vice* of the SS 'Mesa Verde' for and in behalf of the United States of America, acting by and through the War Shipping Administrator" [Ap. 4], sets forth merely the conclusions of the pleader. There was no proof offered by the appellant that the appellee was any kind of owner of the vessel where the alleged accident occurred. Neither was there any proof that the appellee employed the appellant. Neither was there any proof that the appellee was "the operator of" the SS Mesa Verde.

In any event, the allegation of the legal conclusions in the Third Article are entirely nugatory in the face of the existing law providing that the operation and use of all ocean vessels under the flag or control of the United States was subject to the exclusive control of the Administrator, War Shipping Administration. The vessel could not have been operated by Deconhil Shipping Company.

It is a legal certainty that the Administrator, War Shipping Administration, was actually using the vessel for the purpose of enabling the United States of America to carry out its obligations incident to the state of war which existed in view of the fact that no peace treaties had been signed and the war is still legally in progress. If we assume, without conceding, that the individuals actually aboard the vessel for the purpose of navigating her were general servants of appellee, they were, while

any use was being made of the vessel, the servants of the War Shipping Administration. This is so, as a matter of law and regardless of any words used by the pleader in a futile attempt to circumvent or ignore the provisions of positive law to the contrary, for the reason that the Administrator, War Shipping Administration, having the exclusive right to control the "operation and use" of the vessel could only exercise such right of absolute and exclusive control if he possessed the exclusive authoritative right to control and direct the persons engaged in any work incident to such operation and use in and about the details connected with how such work was to be done.

Therefore, Deconhil Shipping Company would not be legally liable for any tort actually committed by any such general employee aboard the vessel because the work such person may have been doing while the vessel (and necessarily its personnel) was being used by the War Shipping Administrator for the purpose of having articles transported was the work of the Administrator. Therefore, any negligent act or omission of such person was not that of a general employer but that of his employer *pro haec vice*, the War Shipping Administration, and his negligence, if any, would not be imputed to Deconhil Shipping Company. The leading case on the subject of the "loaned servant" doctrine is *Denton v. Yazoo & M. V. R. R. Co.* (1932), 284 U. S. 305. In that case the Court states:

"Whether the railroad companies may be held liable for Hunter's act depends not upon the fact that he was their servant generally, but upon whether the work which he was doing at the time was their work

or that of another, a question determined, usually at least, by asceraining under whose authority and command the work was being done. When one person puts his servant at the disposal and under the control of another for the performance of a particular service for the latter, the servant, in respect of his acts in that service, is to be dealt with as the servant of the latter and not of the former. This rule is elementary and finds support in a large number of decisions, a few only of which need be cited. In *Standard Oil Co. v. Anderson*, 212 U. S. 215, 220-225, this court said:

“The servant himself is, of course, liable for the consequences of his own carelessness. But when, as is so frequently the case, an attempt is made to impose upon the master the liability for those consequences, it sometimes becomes necessary to inquire who was the master at the very time of the negligent act or omission. One may be in the general service of another, and, nevertheless, with respect to particular work, may be transferred, with his own consent or acquiescence, to the service of a third person, so that he becomes the servant of that person with all the legal consequences of the new relation.

\* \* \* \* \*

“To determine whether a given case falls within the one class or the other we must inquire whose is the work being performed, a question which is usually answered by ascertaining who has the power to control and direct the servants in the performance



of their work. Here we must carefully distinguish between authoritative directions and control, and mere suggestion as to details or the necessary co-operation, where the work furnished is part of a larger undertaking.

\* \* \* \* \*

“‘In many of the cases the power of substitution or discharge, the payment of wages and other circumstances bearing upon the relation are dwelt upon. They, however, are not the ultimate facts, but only those more or less useful in determining whose is the work and whose is the power of control.’” (*Denton v. Yazoo & M. V. R. R. Co.*, 284 U. S. 305, at 308-309.)

So every similar attempt to recover from private companies for the negligence of their employees in the course of doing the work of the United States has been rejected. See *Norfolk & W. Ry. Co. v. Hall* (4th Cir., 1932), 57 F. (2d) 1004, 1008; *McLamb v. DuPont* (4th Cir., 1935), 79 F. (2d) 966; and *cf. Hardy v. Shedden Co.* (6th Cir., 1897), 78 Fed. 610, 613; *Byrne v. Kansas City, Ft. S. & M. R. R. Co.* (6th Cir., 1894), 61 Fed. 605. See also, 61 A. L. R. 290.

Apart from some *statute* providing otherwise, no corporation can be compelled, within the meaning of due process of law and the right to the equal protection of the laws (Fifth and Fourteenth Amendments, Constitution of the United States) to respond in damages to a person injured by the negligence of another unless the activities of the latter, at the time and place of the tort, was subject to the control of the corporation under such circumstances as to bring the maxim *respondeat superior* into operation and effect.

### Conclusion.

It is respectfully contended by appellee that this Honorable Court should remand the case to the District Court with directions to dismiss the same for lack of jurisdiction. In the event such course does not seem in accordance with law, then the decree of the District Court should be affirmed for the reason that this Honorable Court should give considerable weight to the action of the trial Judge in disbelieving the oral testimony of the appellant in so far as his claims of pain and suffering are concerned. There is nothing shocking about the fact that the trial Judge allowed the appellant the sum of \$400.00 as damages by reason of a simple crack in the small bone of his left arm and bruise in his groin. This Honorable Court is requested to make findings in favor of appellee on the subject of contributory negligence. There cannot be much question about the fact that if a man steps into a dark place and deliberately fails to use handrails which are placed there for his protection and deliberately fails to turn on a light when the same is available for him that such individual is guilty of negligence. The testimony of the appellant that the light was burned out was demonstrated by cross-examination to be a conclusion and therefore of no probative effect. If a man chooses to refuse to turn on a light and to take whatever chance of injury might result from using a dark stairway, he certainly is guilty of gross negligence.

Respectfully submitted,

LASHER B. GALLAGHER,

*Proctor for Appellee.*



No. 11805

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**In the United States Circuit Court of Appeals  
for the Ninth Circuit**

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**EUGENE C. WATSON, APPELLANT**

*v.*

**DECONHIL STEAMSHIP COMPANY, APPELLEE**

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**ON APPEAL FROM THE DISTRICT COURT OF THE UNITED  
STATES FOR THE SOUTHERN DISTRICT OF CALIFORNIA**

---

**BRIEF FOR THE UNITED STATES AS AMICUS CURIAE**

---

**H. G. MORISON,**

*Assistant Attorney General.*

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*Admiralty and Shipping Section,*

*Department of Justice.*

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APR 21 1908

PAUL P. CLEMENT,

CLERK



# INDEX

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	Page
Question presented.....	1
The interest of the United States.....	2
Statutes and regulations involved.....	7
Statement.....	7
Reasons requiring dismissal of the libel.....	10
Argument:	
I. The power and authority of general agents stops at the water's edge; they do not have possession or control of the Government's vessels.....	21
1. Not appellee Deconhil but the United States was the operator of its vessels in exclusive possession and control at the time of appellant Watson's injuries.....	21
2. The Executive and legislative branches of the Government have consistently recognized that the United States is the employer of the crews of War Shipping Administration vessels.....	32
3. Appellant Watson makes no contention that he was not fully aware that the United States was his employer and the operator of the <i>Mesa Verde</i> ....	42
II. The Supreme Court's decisions in <i>Caldarola v. Eckert</i> and <i>Denton v. Yazoo Railroad</i> require dismissal of appellant's libel.....	44
1. <i>Caldarola v. Eckert</i> establishes that appellee Deconhil was not the operator or owner <i>pro hac vice</i> of the Government's vessels, but that the operation of the vessels was exclusively the work of the United States.....	44
2. <i>Denton v. Yazoo Railroad</i> establishes that liability cannot be imposed on Deconhil for the negligence of the master and crew in doing work which was exclusively that of the United States.....	49
3. The dismissal of appellant Watson's suit compelled by the <i>Caldarola</i> and <i>Denton</i> decisions is equally required by the <i>Brady</i> and <i>Hust</i> cases.....	54
III. The Clarification Act does not operate to make Deconhil liable for the negligence of the master and crew of the <i>Mesa Verde</i> .....	63



## Argument—Continued

## III. The Clarification Act—Continued

Page

1. The purpose of the Clarification Act was solely to give War Shipping Administration seamen the benefits of the Jones and Social Security Acts instead of the United States Employees' Compensation and Civil Service Retirement Acts----- 63
2. The actual terms of the Clarification Act do not authorize suit against the Government's agents or alter their liability in tort or contract----- 75

Conclusion----- 79

## Appendix:

- A. Statutes and regulations involved----- A-1
- B. Letter of the General Counsel, United States Maritime Commission, in reply to the enquiries of the Supreme Court of the United States----- A-4
- C. War Shipping Administration, Operations Regulation No. 84 (Revised)----- A-26

## CITATIONS

## Cases:

- American Stevedores v. Porello*, 330 U. S. 446----- 64
- Baccarat v. Andrew F. Mahoney Co.*, 1933 A. M. C. 1652----- 44
- Brady v. Roosevelt S. S. Co.*, 317 U. S. 575----- 20, 22, 26, 31, 54, 55, 56-58, 79
- Butler v. Boston & Savannah S. S. Co.*, 103 U. S. 527----- 24
- Byrne v. Kansas City, Ft. S. & M. R. R. Co.*, 61 Fed. 605----- 53
- Caldarola v. Eckert*, 332 U. S. 155----- 14, 15, 17, 45-49, 80
- Carroll v. United States*, 133 F. 2d 690----- 60
- Cox v. Lykes Bros.*, 237 N. Y. 376, 143 N. E. 226----- 44
- Cortez v. Baltimore Insular Line*, 287 U. S. 367----- 14
- Del Norte, The*, 119 Fed. 118----- 43
- Denton v. Yazoo & M. V. R. R. Co.*, 284 U. S. 305----- 19, 49-52, 59
- DeZon v. American President Lines*, 318 U. S. 660----- 14
- Everett v. United States*, 284 Fed. 203, cert. den., 261 U. S. 615-- 43
- Farrel v. McClea*, 1 Dallas 392----- 24
- Grimberg v. Columbia Packers' Assn.*, 47 Ore., 257, 83 Pac. 194-- 28
- Hagar v. Clark*, 78 N. Y. 45----- 28
- Hardy v. Shedden Co.*, 78 Fed. 610----- 53
- Herron v. Southern Pacific Co.*, 283 U. S. 91----- 11
- Hughes v. Southern Pacific Co.*, 274 Fed. 876----- 24, 31, 44
- Hust v. Moore-McCormack Lines*, 328 U. S. 707----- 5, 12, 17, 19, 20, 32, 45-49, 54, 55, 58-62
- International Stevedoring Co. v. Haverty*, 272 U. S. 50----- 12
- Irvine v. The Hesper*, 122 U. S. 256----- 11
- Jamison v. Encarnacion*, 281 U. S. 635----- 12
- Jentry v. United States*, 73 F. Supp. 899----- 64
- John E. Berwind, The*, 56 F. 2d 13----- 43
- John Twohy, The*, 255 U. S. 77----- 11
- Labor Board v. Hearst Publications*, 322 U. S. 111----- 13

### III

#### Cases—Continued

Page

<i>Lubinski v. Alaska S. S. Co.</i> , 153 F. 2d 1013.....	12, 14, 80
<i>Mary Ethel, The</i> , 294 Fed. 525, rev. on other grounds, 265 U. S. 257.....	11
<i>McLamb v. DuPont</i> , 79 F. 2d 966.....	53
<i>Mexico v. Hoffman</i> , 324 U. S. 30.....	3
<i>Militano v. United States</i> , 156 F. 2d 599.....	45
<i>Murray v. American Export Lines</i> , 53 F. Supp. 861.....	12
<i>Navemar, The</i> , 303 U. S. 68.....	3
<i>N. Y. Central R. R. Co. v. Johnson</i> , 279 U. S. 310.....	11
<i>Norfolk &amp; W. Ry. Co. v. Hall</i> , 57 F. 2d 1004.....	53
<i>Odgaard v. Cosmopolitan Shipping Co.</i> , 1939 A. M. C. 1038, 171 Misc. 244, 12 N. Y. S. 2d 389.....	22, 26, 31
<i>O'Donnell v. Great Lakes Co.</i> , 318 U. S. 36.....	12
<i>O'Neal v. United States</i> , 11 F. 2d 869, aff'd 11 F. 2d 871.....	64
<i>Pacific Imp. Co. v. Schubach-Hamilton S. S. Co.</i> , 214 Fed. 854.....	28
<i>Posey v. T. V. A.</i> , 93 F. 2d 726.....	64
<i>Quericia v. United States</i> , 289 U. S. 466.....	11
<i>Quinn v. Southgate Nelson Corp.</i> , 121 F. 2d 190, cert. den., 314 U. S. 682.....	22, 26, 31
<i>Raymond v. Tyson</i> , 17 How. 53.....	28
<i>Reed v. United States</i> , 11 Wall. 591.....	27
<i>Reid v. American Express Co.</i> , 241 U. S. 544.....	11
<i>Roberts v. United States Fleet Corp.</i> , 240 N. Y. 474, 148 N. E. 650.....	44, 60
<i>San Rafael, The</i> , 141 Fed. 270, cert. den., 200 U. S. 619.....	11
<i>Seas Shipping Co. v. Sieracki</i> , 328 U. S. 85.....	13
<i>Shilman v. United States</i> , 164 F. 2d 649, cert. den., Feb. 16, 1948.....	14, 15, 33, 43, 80
<i>Standard Oil Co. v. Anderson</i> , 212 U. S. 215.....	49
<i>Standard Oil Co. v. Southern Pacific Co.</i> , 268 U. S. 146.....	11
<i>Stewart v. U. S. Fleet Corp.</i> , 7 F. 2d 676.....	22
<i>Sun Oil Co. v. Dalzell Towing Co.</i> , 287 U. S. 291.....	53
<i>Throp v. Hammond</i> , 12 Wall. 408.....	28
<i>United States v. Loyola</i> , 161 F. 2d 126.....	64
<i>United States v. Shea</i> , 152 U. S. 178.....	27
<i>United States Fleet Corp. v. Greenwald</i> , 16 F. 2d 948.....	22, 60
<i>Urvic v. Jarka Co.</i> , 282 U. S. 234.....	12
<i>Volund, The</i> , 181 Fed. 643.....	28
<i>Williams v. American Foreign S. S. Corp.</i> , 65 F. Supp. 900.....	12, 79

#### Statutes:

Employers Liability Act of April 22, 1908, c. 149, s. 1, 35 Stat. 1404 (45 U. S. C. 51).....	12
Federal Employees Pay Act of June 30, 1945, c. 212, 59 Stat. 295.....	39
Jones Act of June 5, 1920, 41 Stat. 1007 (46 U. S. C. 688).....	12-14, 60, 61, 64, 79
Merchant Marine Act of June 29, 1936, c. 858, 49 Stat. 1985 (46 U. S. C. 1194, 1197 (c)).....	22
National Labor Relations Act of July 5, 1935, c. 372, 49 Stat. 450 (29 U. S. C. 152 (2)).....	13, 36

## Statutes—Continued

Page

Shipping Commissioners Act of June 7, 1872, as contained in Revised Statutes with amendments (46 U. S. C. 564, 577, 592, 594, 596, 713).....	9, 20, 31
Social Security Act Amendments of August 10, 1946, c. 951, 60 Stat. 978 (26 U. S. C. 1606 (f), 42 U. S. C. 1331-1336).....	4, 39-42
Suits in Admiralty Act of March 9, 1920, c. 95, 41 Stat. 525 (46 U. S. C. 741 <i>et seq.</i> ).....	4, 64
United States Employees' Compensation Act of September 7, 1916, c. 250, 39 Stat. 742 (5 U. S. C. 751 <i>et seq.</i> ).....	33, 64, 79
War Shipping Administration (Clarification) Act of March 24, 1943, c. 26, 57 Stat. 45 (26 U. S. C. 1426 (j)); 42 U. S. C. 409 (o); 50 App. U. S. C. 1291).....	4, 6, 37-38, 39, 63, 76-78, 79
Miscellaneous:	
Benedict, <i>Admiralty</i> (6th ed., 1940).....	11
Bowyer, <i>Law Dictionary</i> (1934).....	24, 25
Civil Service Rules, Schedule A, 5 Code of Fed. Regs., 1943 Cum. Supp. p. 1488.....	8, 33
General Admiralty Rule 46 as amended June 8, 1942 (316 U. S. 717).....	6
<i>Issues in Social Security</i> , Report to the Ways and Means Committee of House of Representatives pursuant to H. Res. 204, 79th Cong., 1st Sess., p. 401.....	37
Labatt, <i>Master and Servant</i> (1913).....	19
Maritime War Emergency Board, Statement of Principles, 46 Code of Fed. Regs., 1943 Supp. p. 2124.....	36
Parsons, <i>Shipping</i> (1869).....	24, 25
Restatement of Agency.....	16, 19
Story, <i>Agency</i> , secs. 35 and 36.....	24, 25
U. S. Employees' Compensation Commission, 28th Annual Report (1944).....	33
War Shipping Administration Form GAA 4-4-42, 7 Fed. Reg. 7561, 46 Code of Fed. Regs., 1943 Cum. Supp., p. 11427, sec. 306.44.....	7, 15, 25-31, 45, 46, 53, 59
77th Cong., 2d Sess., H. R. 7424.....	64
77th Cong., 2d Sess., Hearings before House Merchant Marine and Fisheries Committee on H. R. 7424.....	65-71
77th Cong., 2d Sess., H. Rep. 2572.....	3, 72
77th Cong., 2d Sess., S. Rep. 1655.....	73
77th Cong., 2d Sess., S. Rep. 1813.....	74
78th Cong., 1st Sess., H. R. 133.....	74
78th Cong., 1st Sess., H. Rep. 107.....	35, 36, 39, 42
78th Cong., 1st Sess., S. Rep. 62.....	39, 75
79th Cong., 1st Sess., Hearings before House Ways and Means Committee on H. R. 3736.....	37
79th Cong., 2d Sess., H. Rep. 2447.....	42
79th Cong., 2d Sess., H. Rep. 2526.....	41
79th Cong., 2d Sess., S. Rep. 1862.....	42

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## BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

The United States files this brief *amicus curiae* because of the importance of the problem here presented for direct operation by the Government of its cargo vessels. The United States Maritime Commission has requested the Department of Justice to advise the Courts of the Government's interest in cases of this character and of its position respecting the issues involved.

## QUESTION PRESENTED

Whether appellant Watson, a civil service seaman of the United States employed on a government-owned vessel operated by the War Shipping Administration, has a cause of action for damages under the Jones Act and for maintenance under the general maritime law against appellee Deconhil, which acted as agent

of its disclosed principal, the United States, in managing the accounting and certain other shoreside business of a government vessel.

#### THE INTEREST OF THE UNITED STATES

It is of the greatest importance to the United States that the Government and not its agents be recognized as operating owner in possession and control of government vessels which are manned, operated and navigated by it through ship masters who are its direct agents and employees and which are victualled, supplied and maintained by it through shipping companies who are employed as ships' husbands and berth agents. If the masters and crews of such government vessels can be treated as the agents, servants and employees of such shipping companies rather than of the United States, then the shipping companies must be deemed owners *pro hac vice* or operators of the vessels and the Government a mere reversionary owner who has parted with possession and control of its vessels.

Such a conclusion, that the agents are operators, is, naturally, of little practical importance to appellee Deconhil or any other government agent, for if they reasonably defend themselves in litigation brought against them they are entitled to reimbursement and indemnity from the United States. But to the Government the results of the conclusion that the agents are operators in possession and control will be disastrous for direct government operation, both retrospectively during the war just ended and prospectively during any other period of emergency which may



again make direct government operation necessary. Such a conclusion will make it impossible for the Government to follow its present practice of engaging the existing shoreside organizations of shipping companies to attend to the shoreside operations of government vessels.<sup>1</sup> It will oblige the United States in time of emergency to create new shoreside organizations of its own, with consequent increased expense and delay in starting its direct operations.

If the master and crew of government vessels can be held to be the employees of the vessels' shoreside agents for the purpose of responsibility and control, these agents and not the United States must be treated as the operators or owners *pro hac vice* and the vessels, not being in the possession of public authority, will not again be entitled to governmental immunity in foreign ports. Cf. *Mexico v. Hoffman*, 324 U. S. 30, 37-38; *The Navemar*, 303 U. S. 68, 74. Such a conclusion defeats the intention of Congress. Congress has always taken care expressly to reserve the sovereign

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<sup>1</sup> See H. Rep. No. 2572, 77th Cong., 2d sess., p. 8: "The Administrator, in the conduct of his duties and functions, makes very extensive use of the private organizations including those engaged in merchant marine insurance and related activities, steamship operators, stevedore, and terminal facilities, freight forwarders, and freight brokers and agents. Special skill, knowledge, and experience are made available in this manner for use in the integrated war effort. This development confirms the wisdom of the congressional policy in the recent years of stimulating and assisting the development of such private merchant marine and insurance facilities at substantial Government cost. The policy has permitted a quick change-over from peacetime to wartime operations of the entire merchant marine without any substantial loss of efficiency or impairment of morale." (Cf. letter of the General Counsel, U. S. Maritime Commission, *infra*, Appendix, p. A-9.)



immunity of such vessels although it has accepted civil responsibility for their acts. See 46 U. S. Code 747. Certainly nothing in any act of Congress justifies holding that by employing private companies as general agents and berth agents to manage and conduct the accounting and certain other shoreside business of the vessels, the Government has transferred the operating ownership of the vessels themselves and without Congressional authority has abandoned such immunity in time of war or emergency when its preservation is most important.

If the master and crew should be held to be employees of the agents so that the latter become thereby the operators or owners *pro hac vice*, the vessels will also lose immunity in this country from regulation and taxation by State and local governments. In every case where vessels privately operated are subjected to such regulation and taxation, government vessels, if they are thus deemed to be privately operated, must be similarly treated. Indeed this last consideration is already of particular importance in connection with the assertion of the liability of the United States, through its agents, for State unemployment insurance taxes. In the case of government civilian seamen employed through the War Shipping Administration, the Congress has made special statutory provision for old age and survivors' insurance benefits<sup>2</sup> and for unemployment compensation insurance benefits.<sup>3</sup> If it

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<sup>2</sup> War Shipping Administration (Clarification) Act of March 24, 1943, c. 26, 57 Stat. 45, as amended (50 App. U. S. C. 1291; 26 U. S. C. 1426 (i); 42 U. S. C. 409 (o)).

<sup>3</sup> Social Security Act Amendments of August 10, 1946, c. 951, 60 Stat. 978, 42 U. S. C. 1331-1336.

be held that the master and crew are servants or employees of the shoreside agent and not of the United States, so that the agent is the operator or owner *pro hac vice* in possession and control of the government vessel, agents will be required to collect additional taxes from both the seamen and the United States and to pay them over to the State government having local territorial jurisdiction of the vessel's agent. The point is of more than academic interest. The United States is currently resisting the attempt of the California tax authorities, based on their interpretation of *Hust v. Moore-McCormack Lines* (1946), 328 U. S. 707, to collect over ten million dollars as unemployment insurance taxes on account of War Shipping Administration seamen. Such payment, moreover, will be without any corresponding increase in benefits to either the seamen or the Government since Congress has already made special provision for unemployment benefits in such cases.

Finally, if the master and crew are employees of the shoreside agent, the latter is the operator or owner *pro hac vice* in possession of the Government's vessel. Thus the United States will be required to defend before juries in the state courts suits brought against agents because of damage or collision alleged to result from negligent operation, navigation and management of its vessels by the master and crew. The dangers of this result are tremendous. In time of war litigation seeking to fix responsibility for such collisions involves convoy and routing instructions, the details of swept channels and other harbor defense procedures, the operation of secret detection and navigation equip-

ment, and countless other matters of the highest secrecy. During the recent war the Supreme Court of the United States by special admiralty rule effective in all United States courts provided for the impounding of pleadings and the hearing of cases *in camera* in order to protect the national interest in these respects.<sup>4</sup> No such action could be effectually taken if cases are to be tried before juries and in the state courts. If the master and crew are employees of the agents, foreign powers will need only to arrange for the filing of a state court suit against an agent and secrecy will fly out of the window.

To a lesser extent the same problem of secrecy may be presented even in cases of personal injuries where they occur on the high seas. Not only do many cases of personal injury arise from collision, but even when they do not, questions of defense procedures and defensive installations are frequently involved.<sup>5</sup> Indeed, at the time of the enactment of the War Shipping Administration (Clarification) Act, Congress, despite the insistence of the representatives of the seamen's unions (See *infra*, pp. 68-71), expressly refused to grant seamen the right to jury trial even where the suits were to be in the federal courts where it could

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<sup>4</sup> General Admiralty Rule 46, as amended June 8, 1942 (316 U. S. 717). Such collision risks are not insured by the Government and the defense is conducted solely by attorneys of the Department of Justice assisted by representatives of the services involved.

<sup>5</sup> In admiralty, General Admiralty Rule 46 is, of course, equally applicable. Such personal injury risks are covered by protection and indemnity insurance procured by the Government. Defense is conducted by private attorneys appointed by the underwriters to act as of counsel to the United States Attorney for the district involved.

take steps to enforce secrecy. To hold that the Government's shoreside agents are the operators or owners *pro hac vice* so as to be subject to suit for the acts of the master and crew of the Government's vessels defeats the intention of Congress and brings such matters before juries in state courts with inevitable destruction of national security.

#### STATUTES AND REGULATIONS INVOLVED

The statutes and regulations involved, i. e., the Jones Act (46 U. S. C. 688), and Federal Employers' Liability Act (45 U. S. C. 51), and R. S. 1753 (5 U. S. C. 631), together with the applicable Civil Service Rules, are set forth in Appendix A, pp. A-1 *et seq.*

#### STATEMENT

Appellant Watson, a civilian government seaman, appeals from a decree awarding him maintenance in the sum of \$52.50 and damages under the Jones Act in the sum of \$400.00, consisting of \$300.00 for loss of wages and \$100.00 for pain and suffering.

Appellee Deconhil was a shoreside agent of the United States employed as a ship's husband or general agent under the standard form of service agreement with the War Shipping Administration. Its duties were to "manage and conduct" the accounting and certain other shoreside business of the S. S. *Mesa Verde* and other vessels owned by the United States and operated by the War Shipping Administration to the extent and in the manner which the Government by "directions, orders or regulations" might from time to time prescribe. War Shipping Administration Form



GAA 4-4-42, 46 Code of Fed. Regs., 1943 Cum. Supp., p. 11427, sec. 306.44 (7 F. R. 7561).

Watson was a civilian employee of the War Shipping Administration engaged as a member of the crew of the *Mesa Verde*, a vessel built and owned by the United States and operated by the War Shipping Administration. Watson was procured for engagement by the Master of the *Mesa Verde* through Deconhil in accordance with Article 3 A (d) of the standard form agreement that "*the general agent shall procure and make available to the master for engagement by him the officers and men required by him to fill the complement of the vessel.*" Watson signed shipping articles with the vessel as a wiper (Rspt.'s Exh. A, R. 19). These articles, which constituted Watson's contract of employment, were in the standard form provided by the Coast Guard in accordance with law and took the shape of an agreement between the master on the one hand and the various seamen on the other. They stated that Watson's employer, described as the "Operating Company on This Voyage," was "United States of America, War Shipping Administration" whose address was stated to be in care of "Deconhil S. S. Co., Gen. Agents, 311 California St., San Francisco, Cal." Such employment on a government-owned and operated ship made Watson an unclassified civil service employee of the United States under Section xxi (1) of Schedule A to the Civil Service Rules, 5 Code of Fed. Regs., 1943 Cum. Supp., p. 1488, sec. 50.21 (see Appendix, pp. A-2-3). A copy of the articles stating these facts concerning Watson's employment was re-

quired by law to be kept posted where they could be read by the crew at all times during the voyage (46 U. S. C. 577) and it is not contended by Watson that they were not visible at all times or that he was not fully aware of the identity of the Government as operating owner of his ship and of his status as a civilian employee of the United States.

Watson was injured December 2, 1946 in consequence of stepping into a bucket negligently left on the steps of a stairway or ladder aboard the *Mesa Verde*. He could without question have recovered from the United States as operating owner in possession and control of the vessel. Instead, he brought this suit in admiralty against Deconhil, the Government's shoreside agent without joining his employer, the United States. Watson's libel alleged that Deconhil "was and is the operator of and owner *pro hac vice* of" the *Mesa Verde* (Art. III, R. 4), and that it was Deconhil's duty "to furnish libelant with a reasonably safe place in which to do his work; to supply him with suitable and safe means, materials, and appliances in and for the performance of his work; to maintain the same in proper condition for the proper performance of said work; to hire skillful and careful employees and not to retain those found careless or unskillful; to promulgate and enforce proper rules in relation to the foregoing and to inspect such materials, appliances and means" (Art. IX, R. 5-6). Deconhil's answer, in addition to other pertinent denials, expressly denied the allegations that it was operating the vessel or owed respondent any such duties (Art. III, R. 9; Art. IX, R. 10).



The case was tried to the district court on the oral testimony of appellant Watson and of Captain Rathbun, the Master of the *Mesa Verde* at the time of the accident. The court stated findings of fact and conclusions of law in the course of which he found as a fact that the allegations of the libel that Deconhil was operator and owner *pro hac vice* of the *Mesa Verde* (Fng. I, R. 14), and that Deconhil owed Watson a duty to furnish him a safe place to work and safe appliances, employees, etc. (Fng. VI, R. 15) were true. The court concluded as a matter of law that Watson was entitled to recover maintenance and damages totaling \$452.00 plus costs (R. 16). Appellant Watson appeals on the ground that the damages awarded by the court below were inadequate.

#### REASONS REQUIRING DISMISSAL OF THE LIBEL

The United States prays that this Court fully review the record brought here by appellant Watson in all its aspects and order the dismissal of his libel on the merits because of his failure to establish any liability on the part of appellee Deconhil. This case is before this Court for a trial *de novo*. An admiralty appeal from the district court to the court of appeals is a new trial in which the appellate court may reverse the decree below and exonerate even in favor of one who, like appellee Deconhil in this case, has not appealed. A cross appeal is not required and without it this Court may direct the entry of whatever decree may be appropriate to express its own opinion respecting the findings of fact and conclusions of law. It well settled that it may disallow in favor of the appellee the whole

or any part of the award made in the district or may dismiss the libel. E. g. *Reid v. American Express Co.* (1916), 241 U. S. 544, 547-548; *Irvine v. The Hesper* (1887), 122 U. S. 256, 266; *The Mary Ethel* (2d Cir., 1923), 294 Fed. 525, 527, reversed on other grounds, 265 U. S. 257.

The many cases supporting the doctrine that no cross appeal is required are too well known to require citation or discussion. E. g. *The John Twohy*, (1921) 255 U. S. 77; *Standard Oil Co. v. Southern Pacific Co.*, (1925) 268 U. S. 146, 155; *The San Rafael*, (9th Cir., 1905) 141 Fed. 270, 275, cert. den. 200 U. S. 619. See 4 Benedict, *Admiralty*, (6th Ed., 1940) pp. 58-61, collecting the cases. We submit that the public interest requires that courts on their own motion protect both the litigants and others who may be effected by the litigation and insure correct administration of the judicial process. A trial in court is not a purely private controversy of no importance to the public. The state, whose interest it is the duty of court and counsel alike to uphold, is concerned that every litigation be fairly and impartially conducted. *N. Y. Central R. R. Co. v. Johnson*, (1929) 279 U. S. 310, 318. Judges are not mere referees or moderators between counsel. *Herron v. Southern Pacific Co.*, (1931) 283 U. S. 91, 95; *Quericia v. United States*, (1933) 289 U. S. 466, 469. This Court should accordingly exercise its full powers to protect the public interest and correct the error of the court below in holding the Government's shoreside agent the operator and owner *pro hac vice* of the Government's vessels so as to be liable to appellant Watson.

The court below gravely misinterpreted and misapplied *Hust v. Moore-McCormack Lines* (1946), 328 U. S. 707, by failing to dismiss the libel herein as required by *Lubinski v. Alaska S. S. Co.* (9th Cir., 1946), 153 F. 2d 1013, where this Court held that "The United States, acting through its agent the War Shipping Administration, had complete charge and authority over the ship and crew" and affirmed the dismissal of the general agent. See also *Williams v. American Foreign S. S. Corp.* (S. D. N. Y., 1945), 65 F. Supp. 900, 901-902; *Murray v. American Export Lines* (S. D. N. Y., 1943), 53 F. Supp. 861. *Hust* was a decision in the great tradition of the Jones Act; a natural link in the process of liberalizing the protection of all maritime workers." Just as *Jamison v. Encarnacion*, (1930) 281 U. S. 635, 640, construed "negligence" to include wilful misconduct. Just as *Uravic v. Jarka Co.* (1931), 282 U. S. 234, 239, and *O'Donnell v. Great Lakes Co.* (1943), 318 U. S. 36, 39, held that "in the course of his employment" included cases where the injury was on a foreign ship or on the land. Just as *International Stevedoring Co. v. Haverty* (1926), 272

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<sup>6</sup> By the Jones Act (46 U. S. C. 688) "any seaman" injured "in the course of his employment" is granted the benefit of the provisions of the Federal Employers' Liability Act (45 U. S. C. 51 *et seq.*), giving railway employees a right of recovery for injuries resulting "from the negligence of any of the officers, agents or employees" of the railway. The right to maintain suit under the Jones Act is an outstanding gain to maritime workers wherever negligence of the defendant's agents or employees exists. The longer statute of limitations provided by the federal act applies; recovery for wrongful death is not limited in amount; the benefit of the proportionate fault rule in contributory-negligence cases can be had without sacrifice of the right to trial by jury.

U. S. 50, 52, had construed "seamen" when used in the Jones Act to include longshoremen. So *Hust* completes the liberalization of the statute by holding that "employer" in respect of the Jones Act, as in the National Labor Relations Act and the War Labor Disputes Act, is not confined to employer in the common law sense but includes "any person acting in the interest of an employer, directly or indirectly" (29 U. S. C. 152 (2)). See 328 U. S. at 724, citing *Labor Board v. Hearst Publications* (1944), 322 U. S. 111, 120. Thus the Supreme Court concluded in *Hust* that the common law employer-employee relationship was not required to constitute "employment" as used in the Jones Act in authorizing the bringing of the statutory action, but that the benefits of that Act might be invoked by maritime workers in every case where recovery is sought for the alleged negligence of any defendant acting on behalf of a ship. That the owner seeks to have his ship operated with the advantages of division of labor should not nullify the worker's right to maintain the statutory action. Cf. *Seas Shipping Co. v. Sieracki* (1946), 328 U. S. 85, 96.

But to hold, as did the court below, that a party thus sued under the Jones Act is liable not only for the negligence of its own agents and employees, but even in the total absence of fault on its part or on the part of those who are its own agents or servants, must respond in damages for the negligence of the master and crew who are exclusively the independent agents and employees of its principal, the United States, in the navigation and management of the vessel, is contrary to



the tradition of the Jones Act. And here, we submit, is where the court below fell into error. The gravamen of the seaman's action under the Jones Act is injury resulting from negligence imputable to the defendant who is being sued—negligence of those who are its servants or agents in doing its work. The Jones Act is not a workmen's compensation act. *De-Zon v. American President Lines* (1943), 318 U. S. 660, 665, 672; *Cortez v. Baltimore Insular Line* (1932), 287 U. S. 367, 377. Recovery in a Jones Act suit can be had only for the negligence of those who are agents or servants of the defendant. The court below, however, not content to follow *Hust* and hold that Deconhil was the "employer" of appellant Watson for the purpose of his *bringing the statutory action* under the Jones Act, erroneously found that Deconhil was the operator and owner *pro hac vice* of the Government's vessel and therefore, of course, answerable for the negligence of its master and crew and subject to an obligation to furnish appellant Watson with maintenance and cure during his illness.

We believe that rightly understood, the decisions of the Supreme Court in *Caldarola v. Eckert* (1947), 332 U. S. 155, of this Court in *Lubinski v. Alaska S. S. Co.*, 153 F. 2d 1013, and of the Second Circuit in *Shilman v. United States et al.*, 164 F. 2d 649, certiorari denied February 16, 1948, show that the United States, as operating owner of the vessel, and not Deconhil, its shoreside agent, was the principal who is alone liable for the torts and contracts of the ship, her master, and crew. Those decisions establish that shoreside agents, such as Deconhil, cannot be held

liable as principal since they are not operators or owners *pro hac vice* of the Government's vessels so as to be chargeable with the acts of the master and officers. In *Caldarola* the Supreme Court said (332 U. S. at 159-160):

The United States, as *amicus curiae*, submitted what we deem to be conclusive considerations against reading the contract so as to find the Agents to be owners *pro hac vice* in possession and control of the vessel. The consequences, to both the national and international interest of the United States, of such a construction would be too far-reaching to warrant such a forced reading merely in order to have a basis on which to build liability under the law of New York. Serious issues affecting the immunity of Government vessels in foreign ports as well as immunity from regulation and taxation by local governments would needlessly be raised. After all, the question is not whether petitioner may be compensated for his injury. Congress has made provision for that. Petitioner insists, in order to enable him to sue in the courts of New York, that the Agents are to be deemed, as a matter of federal law, owners of the vessel *pro hac vice* \* \* \*. We reject this construction. \* \* \* Our previous decisions do not require it.

In *Shilman v. United States*, the Court was urged to hold that Grace Line, which, like Deconhil in the case at bar, was the Government's agent under the standard form GAA-4-4-42 agreement, was the principal responsible for the acts of the master. In that case the acts for which liability was sought to be imposed



were not, as here, also a tort of the crew, but an alleged breach of the contract of employment of a crew member, just as was Watson's claim for maintenance here. The Court observed that clearly with respect to any party but the United States, such circumstances would not impose the liability of a principal upon one who was an agent for a disclosed principal. Said the court (164 F, 2d at 652) :

His claim against Grace Line, Inc. [the Government's agent] stands however on a different footing and was properly dismissed because it arose out of a contract of employment by the United States as a disclosed principal and therefore may not be asserted against its agent Grace Line, Inc.

The Shipping Articles are the basis of the contract of the libelant for his wages. They were signed by the master and the seamen. The printed form containing the particulars of the engagements of the crew recited the name of the ship, her official number, her registry and tonnage and set forth "War Shipping Administration," and on the line below "Grace Line, Agents," under the printed designation of "Registered Managing Owner or Manager." All these descriptive terms were printed under the words "Articles of Agreement Between Master and Seaman in the Merchant Service of the United States" set out in bold type.

There can be no doubt that such an agreement if made with another than the United States would not render the agent for a disclosed principal individually liable. Restatement Agency, Section 320, provides that: "Unless otherwise agreed, a person making or pur-

porting to make a contract with another as agent for a disclosed principal, does not become a party to the contract."

The General Agency Agreement between the United States acting through the Administrator, War Shipping Administration, and Grace Line, Inc., provided in Article 1 that:

"The United States appoints the General Agent as its agent and not as an independent contractor, to manage and conduct the business of vessels assigned to it by the United States from time to time."

We can discover no reason for attributing the liability of a principal to Grace Line, Inc., under such an "Agency Agreement."

But it is said that the libellant was an employee of the Grace Line under the ruling of the Supreme Court in *Hust v. Moore-McCormack Lines*, 328 U. S. 707. That decision was rendered in an action to recover under the Jones Act damages arising from negligence imputed to the operating agent. In *Caldarola v. Eckert*, 332 U. S. 155, a stevedore who sued the general agent in the New York Courts for injuries caused by a defective boom on the vessel on which he was working was denied recovery from the agent. In neither the *Hust* nor the *Caldarola* decisions did a majority of the court hold the agent to be owner of the vessel *pro hac vice*. In the first case he was only held to be subject to the obligations of an employer so as to be liable to seamen in tort for acts of negligence connected with the operation of the vessel. In each case the court was highly divided but in neither did it decide that the agent was so far the employer as to be liable to the

seamen for their wages or other contractual obligations.

By these decisions it is now settled that, as operating owner in possession and control, the United States, not its agent, was the principal whose work the Master and crew were doing in the navigation and management of the vessel and that the United States alone is the principal liable for the torts they commit and the contracts they make in doing the work of the United States in operating the vessel.

That Deconhil as ship's husband "procured" the master and crew for engagement as employees of the United States does not make them agents and servants of Deconhil so as to render it responsible for their acts. It is elementary that when a principal, such as the United States, authorizes an agent, such as appellee Deconhil here, to engage on its behalf other agents and employees, such as the master and crews of its vessels, the principal alone, and not the agent procuring the engagement, is responsible for the torts and contracts of such other agents and employees. In the words of the *Restatement of Agency* (§ 79, comment (a)):

The agents so employed are agents of the principal and not of the employing agent, who is not responsible to them for their compensation unless he so manifests, and is no more responsible for their conduct to third persons or to the principal than he is for the conduct of other agents of the principal, unless he is negligent in their selection.

And to the same effect see 1 Labatt, *Master and Servant* (2d ed. 1913), pp. 102-103:

It is well settled that, where an employee, acting under the express or implied authority of his principal, engages servants to perform work for the benefit of his employer, the principal, and not the employee, is in law the master of the servants so engaged. This doctrine is an obvious and necessary consequence of the fact that, in the case supposed, the power of controlling the servants, even though it may normally be exercised by the agent after they are hired, really resides in the principal, and may at any time be called into active exercise.

But even if appellee Deconhil could be regarded as in some special sense the "employer" of the master and crew of the Government's vessels as suggested in the *Hust* case, still it was not the owner *pro hac vice* or operator of the Government's vessels and the work of the masters and crews of the vessels in the course of which their negligence brought about the injury of appellant Watson was the work of the United States as operating owner and not the work of appellee Deconhil. Accordingly, not appellee Deconhil but only the United States is liable for appellant Watson's injuries. This is settled by *Denton v. Yazoo & M. V. R. R. Co.* (1932), 284 U. S. 305, and many other cases holding that the loaned servant rule applies to the United States and that plaintiffs have no right to recover from private companies for the negligence of employees who, although hired by the private company, are engaged in doing the work of the United States at the time the injury is inflicted.

Nor can the rules of undisclosed principal avail Watson. He was fully advised that he was employed

by the Government. The shipping articles which were his contract of employment and which he signed with the master before a United States Shipping Commissioner expressly stated that the "operating company on this voyage" was the United States of America, War Shipping Administration. He makes no contention that the copy of the articles required to be posted in the crews quarters in order to inform seamen of just such facts (46 U. S. C. 577) was not visible at all times or, indeed, that he did not know that he was a civilian employee of the United States.

Nothing in *Brady v. Roosevelt S. S. Co.*, (1943) 317 U. S. 575, and *Hust v. Moore-McCormack Lines*, (1946) 328 U. S. 707, suggests that the Supreme Court intended to overturn the established rule that liability in suits under the Jones Act is grounded upon the negligence of those who are the "officers, agents or employees" of the defendant in doing the work in which the injury is caused or to abandon the rule of *respondeat superior* by which the negligence of such officers, agents or employees is imputed only to the principal in the course of whose work the acts of negligence are committed. *Brady* does not touch the "different question" of whether the Government's agent is liable (see *Brady*, 317 U. S. at 585). *Hust* does not alter the fundamental legal relationship so as to make Deconhil the master or employer for purposes of ultimate control within the *respondeat superior* rule (see *Hust*, 328 U. S. at 723), or within the rule of ownership *pro hac vice* (see *Caldarola*, 332 U. S. at 159). Indeed, the four-judge decision in *Hust* as interpreted by the five



judges in *Caldarola* did not reach the question of Hust's right *to recover* at all but only held he might *maintain* the statutory action.

## ARGUMENT

### I

**The power and authority of general agents stops at the water's edge; they do not have possession or control of the Government's vessels**

1. *Not appellee Deconhil but the United States was the operator of its vessels in exclusive possession and control at the time of appellant Watson's injuries.*— Consideration of the agreements and regulations of the War Shipping Administration together with the applicable statutes of Congress makes it plain that appellee Deconhil in acting as general agent for the United States had no possession or control over the physical operation of the Government's vessels but that, on the contrary its authority stopped at the water's edge. It is equally plain that it had no authority or control over the conduct of the masters and crew in the management of the vessels and their equipment so as to be held liable for their torts under the rules of *respondeat superior*. It was only a ship's husband appointed as "manager" of certain aspects of the ships' "business" which took place ashore. It was not the operator of the vessels. It follows that it cannot be treated as operating owner or in possession and control.

For many years the Government has been engaged in peace and in war in the operation of a fleet of cargo vessels. Wartime operations have followed a



pattern entirely distinct from that followed in peacetime. During World War I the Government's vessels were directly operated by the Shipping Board. With the return of peace, however, direct government operation ceased and the vessels were turned over to operating agents who were owners *pro hac vice* in possession and control of the Government's vessels. See *U. S. Fleet Corp. v. Greenwald* (2d Cir. 1927), 16 F. 2d 948, 951; *Stewart v. U. S. Fleet Corp.* (E. D. N. Y., 1925), 7 F. 2d 676, 678. Finally, the Merchant Marine Act, 1936, directed the United States Maritime Commission to arrange for the operation of its vessels by bareboat charter to private operators. In such bareboat operation the private operators were owners *pro hac vice* or operating owners in possession and control of the vessels and employed their own shipmasters and berth agents. The United States was a mere reversionary "general owner" and not in possession or control. In order to assure operation of lines in unprofitable trades, however, the 1936 Act provided that if it should be impossible to find private operators willing to operate the vessels under bareboat charter, the Commission might arrange temporarily for their operation under whatever arrangements the Commission should find advantageous (46 U. S. C. 1194, 1197 (c)). Under this authority the Commission adopted the special demise form of operating agency, employed during 1937 to 1940, which was involved in the cases of *Brady v. Roosevelt S. S. Co.* (1943), 317 U. S. 575, *Quinn v. Southgate Nelson Corp.* (2d Cir., 1942), 121 F. 2d 190, cert. den. 314 U. S. 682, and *Odgaard v. Cosmopolitan Shipping Co.*,

1939 A. M. C. 1038, 171 Misc. 244, 12 N. Y. S. 2d 389. This special form of agreement, generally known as the "Roosevelt agreement" from the Supreme Court case of that name, was executed with only four agents. It was an operating agency agreement under which the four agents were made owners *pro hac vice* or operating owners in possession and control of the Government's vessels which they manned, victualled and navigated with masters and crews of their own selection. In this type of operation, the Government granted full possession and control of its vessels to the private operators in substantially the same manner as if they had been bareboat charterers of the vessels. This method of operation continued until the sale in 1940 of the last of the government-owned shipping lines. Thereafter all government-owned cargo vessels were exclusively under bareboat charter until the resumption in the spring of 1942 of direct government operation.

During World War II, the Government's vessels were again directly operated by the War Shipping Administration and it is with this direct government operation that we are here involved. In conducting these direct operations of its vessels the United States, like other ship operators, has made use of the three coordinate classes of agents usual in the conduct of the shipping business—the shipmaster, the ship's husband or general agent, and the consignee of the ship or berth agent—each responsible directly to the United States as operating owner for the matters with which they are respectively entrusted and none of them exercising con-

trol or authority over the others.<sup>7</sup> It employs experienced shipmasters as its agents for the physical operation and management of its vessels afloat and experienced steamship operators both as general agents to “husband” its ships or manage the accounting and other shoreside business operations and as berth agents to manage the operations of obtaining and discharging cargo and other port services. (See Appendix, *infra*, pp. A-8, A-12-A-15, A-19 *et seq.*

The masters engaged by the United States to navigate and physically manage its vessels afloat are currently employed on the terms of the customary maritime usages and the general maritime law. (Sec. 2 Parsons, *Shipping* (1869), pp. 3-13; Bouvier, *Law Dictionary* (1934), “Master of a Ship.”) They accordingly have physical possession, custody and control of the vessels afloat as the direct representatives of the United States as operating owner. They have, in accordance with the law maritime, exclusive authority to employ and discharge seamen subject to general instructions from the Government as owner. (*Butler v. Boston & Savannah S. S. Co.*, (1889) 130 U. S, 527, 554; *Farrel v. McClea*, (1788) 1 Dallas 392, 393; *Hughes v. Southern Pacific Co.*, (S. D. N. Y., 1918) 274 Fed. 876.

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<sup>7</sup> The classical exposition of the coordinate functions of shipmasters and ships’ husbands has always been that of Justice Story and continues to be substantially accurate to this day. Story, *Agency*, § 35, Ship’s Husbands, § 36, Masters of Ships. Berth agents are to some extent a later development. In Story’s day vessels did not operate on routes or schedules and obtaining and delivering cargo, if not left to the master, was entrusted to another agent afloat—the supercargo. Today a port agent is necessary to look after the cargo at the berth and perform related duties.

The experienced steamship operators engaged by the United States to husband its vessels are designated "general agents." They are employed on terms which are substantially in accord with maritime custom (See Story, *Agency*, § 36; 1 Parsons, *Shipping* (1869), pp. 109-114; Bouvier, *Law Dictionary* (1934), "Ship's Husband"), and are fully described in the standard form of general agency agreement designated "GAA-4-4-42." (Title 46 Code of Fed. Regs., 1943 Cum. Supp. p. 11427, sec. 306, 44; 7 Fed. Reg. 7561). They are usually but not invariably the channel through which instructions from the United States as operating owner are relayed to the masters of the vessels whose shoreside business operations they manage. The operators employed to render port service are designated "berth agents." They are currently employed on terms which are substantially the same as in commercial shipping operations and are fully described in the standard form of berth agency agreement (see letter of General Counsel, U. S. Maritime Commission, Appendix, *infra*, pp. A-13-A-14).

The division of duties between the general agent and berth agent for a vessel makes it abundantly plain that on neither of them has the United States conferred the operation or the possession and control of its vessels. The duties of both these shoreside agents and the method of operation are fully explained in the letter of the General Counsel U. S. Maritime Commission (Appendix, *infra*, pp. A-19-A-24). The coordinate and correlative functions of general agents and berth agents show plainly that only the Government as principal



of all three agents, shipmaster, ship's husband and berth agent, is the operator of the ship.

Nowhere in the GAA-4-4-42 agreement is there found any language amounting to a demise or delivery to the general agent of the physical possession and control of the vessels assigned to him. The agent is a mere "manager" of certain shoreside aspects of the ship's "business." On the contrary, the agreement makes it plain that the master as the direct agent of the United States as operating owner is in exclusive possession of his ship. As pointed out by the General Counsel, U.S. Maritime Commission (Appendix, *infra*, pp. A-15-A-19), there is a striking difference in the standard form of general agency agreement here involved and the exceptional operating agency agreement involved in *Brady v. Roosevelt Steamship Co.* (1943), 317 U. S. 575; *Quinn v. Southgate Nelson Corp.* (2d Cir., 1942), 121 F. 2d 190, cert. den. 314 U. S. 682 and *Odgaard v. Cosmopolitan Shipping Co.*, 1939, A. M. C. 1038, 171 Misc. 244, 12 N. Y. S. 2d 389.

By the Roosevelt agreement the United States turned over the vessels themselves *to be operated* by a cost-plus contractor designated "Managing Agent" as owner *pro hac vice* and the latter, and not the United States, manned the vessel with a master and crew employed as its own servants. The Roosevelt agreement (see Record in *Brady v. Roosevelt Steamship Co.*, No. 269, October Term, 1942, pp. 21-32) stated, "The Managing Agent has indicated its willingness to undertake the management and operation of the line, \* \* \*. The Owner hereby designates the Managing Agent as its Managing Agent to man-

age, *operate* and conduct the business of the Line” (Art. 1); “The Managing Agent *shall manage and operate the said vessels* exclusively under the trade name American Pioneer Line” (Art. 4); “The Managing Agent agrees to *man, equip, victual, supply and operate* the vessels, subject to such restrictions and in such manner as the Owner may prescribe \* \* \*. The Licensed Officers and Chief Steward, however, are to be subject to the approval of the Owner” (Art. 7); “The Owner may terminate this agreement \* \* \* in case of \* \* \* any assignment, transfer, agreement or arrangement whereby the *management or operation of the above described Line or vessels* shall be divested from the Managing Agent” (Art. 25).

By the GAA-4-4-42 agency agreement, on the other hand, the United States retains direct control of the vessel’s navigation and management. And it is well established that where the general owner thus retains the possession, command, and navigation of a vessel, he continues to be the operator and the agreement does not constitute a demise, divesting the general owner and making the other party owner *pro hac vice* or operating owner. On the contrary, the entire legal responsibility of ownership and operation remains in the general owner. *Reed v. United States* (1870), 11 Wall. 591, 600; *United States v. Shea* (1894), 152 U. S. 178. It is well settled that if there is any doubt that the general owners have divested themselves of possession and control and constituted another the owner *pro hac vice* or operator “then the general owners must be deemed such for their rights and authority



continue until displaced by some clear and determinate transfer of them; \* \* \* The legal presumption is in favor of the continuance of ownership and against any transfer." See *Hagar v. Clark* (1879), 78 N. Y. 45, 50; *Raymond v. Tyson* (1854), 17 How. 53, 63-64; *Pacific Imp. Co. v. Schubach-Hamilton S. S. Co.* (W. D. Wash., 1914), 214 Fed. 854; *Grimberg v. Columbia Packers' Assn.* (1905), 47 Ore. 257, 270-271, 83 Pac. 194. As such an operating owner the Government alone is liable. *The Volund* (2d Cir., 1910), 181 Fed. 643, 665-667; cf. *Thorp v. Hammond* (1870), 12 Wall. 408, 416.

The standard form GAA-4-4-42 agency agreement under which Appellee Deconhil and other general agents are employed by the United States to husband its vessels provides that they are employed "as its agent and not as an independent contractor to manage and conduct *the business* of vessels assigned to it" (Art. 1). The general agent agrees to *conduct the business* of the vessels "for the United States, *in accordance with such directions*, orders, or regulations" as the United States may prescribe (Art. 2). The general agent undertakes to "maintain the vessel in such trade or service as the United States may direct" (Art. 3A (a)); "equip, victual, supply and maintain vessels *subject to such directions*, orders, regulations and methods of supervision and instruction as the United States may from time to time prescribe" (Art. 3A (c)); "arrange for the repair of vessels \* \* \* including maintenance and voyage repairs and replacements" and "exercise reasonable diligence in making inspections and obtaining infor-

mation with respect to the state of repair and condition of the vessels" (Art. 14).

In accordance with the immemorial custom touching ships' husbands, the standard form agreement makes it the duty of general agents to "procure" the master and crew for the vessels husbanded by them. *Article 3 A (d)* of GAA 4-4-42 directs the agent to "*procure* the master of the vessels operated hereunder, subject to the approval of the United States." It thus makes plain that the agent may not supply its own master, nor may it act as operating agent of the vessels. The agent is confined to *procuring* a master for acceptance or rejection by the United States. The agreement directs that the master so procured shall be an "agent and employee of the United States, and shall have and exercise full control, responsibility and authority with respect to the navigation and management of the vessel." Thus it emphasizes that the agent may not itself give any orders whatsoever with respect to the navigation and management of the vessel to the master, who is declared to be an agent of the United States subject only to independent government orders with respect to such matters. Such orders as the agent may appear to give, in fact, it merely passes on after receiving from the War Shipping Administration.

The agreement further directs that the general agent "shall *procure and make available* to the master for *engagement by him* the officers and men required *by him* to fill the complement of the vessel." The GAA 4-4-42 agreement thus denies the agent authority even to employ officers or men on behalf of the Government. The

function of employing a crew for the United States is vested exclusively in the master as an independent agent of the Government. Respecting the method of procurement, the agreement directs "Such officers and men shall be procured by the general agent through the usual channels and in accordance with the customary practices of commercial operators and upon the terms and conditions prevailing in the particular service or services in which the vessels are to be operated from time to time." So again the GAA 4-4-42 agreement emphasizes that the agents's authority is to stop at the water's edge and prohibits the agent from interfering in the slightest with the management of the vessel itself. Thus the agreement requires that "the officers and members of the crew shall be subject only to the orders of the master." It concludes that the officers and crew "shall be paid *in the customary manner*," that is to say, in cash, "with funds provided by the United States hereunder."

Reviewing the procedure for manning the vessels under GAA 4-4-42, we may state the steps in logical sequence as follows:

1. The master once "procured" by the agent and employed by the United States is the "agent and employee of the United States," not of the agent.

2. The crew is "procured" by the agent through the usual channels, that is to say, the union hiring halls, and is "made available" to the master "for engagement by him" as an independent agent of the United States, not for engagement by the agent.

3. The master "shall have and exercise full authority" over the vessel's "navigation and management"

and the officers and members of the crew are "subject only to the orders of the master." The agent has no authority or duties aboard; its powers stop at the water's edge.

4. The officers and crew are to be paid "in the customary manner with funds provided by the United States," that is to say, in cash by the master or his representative.

This whole arrangement thus adheres consistently to the Government's purpose that the general agent under GAA 4-4-42 shall not be an "operating agent" as in the *Brady*, *Quinn*, and *Odgaard* cases, *supra*, but a mere ship's husband whose authority stops at the water's edge and who is only to operate the "business" of the vessel and have no part in the manning, navigation, management, or other functions of operating the vessel itself.

The seamen thus employed, like all merchant seamen, sign the statutory form of shipping articles before a United States Shipping Commissioner (46 U. S. C. 564, 713). These articles constitute a contract executed by and between the master as agent for the operating owners of the vessel and each member of the crew. See *Hughes v. Southern Pacific Co.* (S. D. N. Y., 1918), 274 Fed. 876. This prescribed form requires that the name and address of the "Operating Company for the Voyage" or "Registered Owner or Manager" be expressly stated and a copy of the form showing that information is "to be placed or posted up in such part of the vessel as to be accessible to the crew" (46 U. S. C. 577). And in order that government seamen should be clearly informed of their

status, the regulations prescribed that the shipping articles be filled out to state in the space for the name of the registered owner or operating company for the voyage "United States of America, War Shipping Administration," and in space for the address "c/o XYZ Company, General Agent," giving the address of the agent (War Shipping Administration Operations Regulation No. 88 Revised). In addition the copy of the articles which is posted in the forecastle is customarily imprinted with a rubber stamp stating that members of the crew are not employees of the agents but exclusively employees of the United States War Shipping Administration.

2. *The Executive and Legislative branches of the Government have consistently recognized that the United States is the employer of the crews of War Shipping Administration vessels.*—Consideration of the agreements and regulations of the War Shipping Administration, together with the applicable statutes, make it equally plain that not only was Deconhil not operator of the vessel, but it was not the employer of the officers and crew of the vessel in the sense necessary to render it liable for their negligence. It was a mere ships' husband or "manager" of certain aspects of the vessel's shoreside "business." The circumstance that as a result of its duty under the agency agreement to "procure" seamen for engagement by the master on behalf of the United States, such seamen may be deemed "employees" of the agent within the technical meaning of that term in the Jones Act (see *Hust v. Moore-McCormack*, (1946) 328 U. S. 707) is not, as



the Court held in *Shilman v. United States, et al.* (2d Cir., 1948), 164 F. 2d 649, 652, dispositive of the question here. On the contrary it is well settled that the agent procuring the employment of others in such a manner is not responsible for the contracts or torts resulting from their acts. In the words of the *Restatement of Agency* (§ 79, Comment (a)): "The agents so employed are agents of the principal and not of the employing agent, who is not responsible to them for their compensation unless he so manifests, and is no more responsible for their conduct to third persons or to the principal than he is for the conduct of other agents of the principal, unless he is negligent in their selection."

A. The executive branch of the government has always recognized such seamen to be government employees. By reason of their employment on government-owned vessels operated by the War Shipping Administration as successor to the Maritime Commission, they are unclassified civil service employees of the United States. Civil Service Rules, Schedule A, sec. xxi (1), 5 Code of Fed. Regs., 1943 Cum. Supp., p. 1488, sec. 50.21. (Executive Order No. 9004, 7 Fed. Reg. 2, 3; Executive Order No. 9247, 7 F. R. 837). For all claims and causes of action arising prior to the Clarification Act, the United States Employees' Compensation Commission granted benefits to such seamen under the United States Employees' Compensation Act, 1916 (39 Stat. 742, 5 U. S. C. 751 *et seq.* See the Commission's 28th Annual Report (1944), p. 5.



In devising a program to accomplish its objective of direct government operation, the War Shipping Administration, after its creation on February 7, 1942, kept definitely in view the fact that such American merchant seamen employed by the government to man its vessels are nonetheless civilians, engaged in voluntary contractual employment, and that government operation of the merchant marine, however vital and closely allied to military and naval activities, was to be conducted as a civilian enterprise with civilian government employees. The wages and working conditions of the majority of merchant seamen privately employed on dry-cargo vessels were already established by a vast number of different collective-bargaining agreements between the various shipowners and the various maritime labor organizations. As vessels owned by or bareboat chartered to the Government and operated by it were destined to replace almost all privately owned and operated ships, the War Shipping Administration considered that to prevent the delay which would result from renegotiating contracts for wages, working conditions, and other aspects of employment already established by the collective-bargaining contracts in effect for privately operated vessels such preexisting agreements should be continued in effect for government-operated vessels (see letter of General Counsel, U. S. Maritime Commission, Appendix, *infra*, pp. A-11-A-12). This was the effect of the identical Statements of Policy signed by the Administrator and the various maritime unions and the War Shipping Administration has taken the position that these Statements of Policy constituted approval of all

maritime collective-bargaining agreements, not merely those of signatory unions.

These Statements of Policy were promptly implemented by a series of regulations, directives and policies, of the War Shipping Administration in order that uniformity could be achieved. Thus one of the most important aspects of the labor relations problem involved the designation of bargaining units. To meet this problem, an exchange of correspondence was had between the War Shipping Administration and the National Labor Relations Board, whereby the Administrator exercised his power to utilize the facilities of the National Labor Relations Board for the designation of bargaining units. The War Shipping Administration's rights with respect to the Board's possible jurisdiction over personnel aboard vessels owned by or bareboat chartered to the War Shipping Administration as distinct from over the agents themselves were specifically reserved. These solutions of the collective bargaining problem were specifically considered and approved by Congress in connection with its consideration of the Clarification Act. H. Rep. No. 107, 78th Cong., 1st Sess., pp. 16-17, 23-24.

A similar practical arrangement was made in connection with the functioning of the National War Labor Board. These practical arrangements were facilitated by the statutory definition of "employer" in the National Labor Relations and War Labor Acts. As stated by the War Labor Board in its Directive Order of August 31, 1945, *In re Maritime Cases*, 26 War Lab. Rep. 509, 512: "The question

raised as to whether the operators should be named in the contract as employers, or, as in the last contract, as general agents for the War Shipping Administration, has no real significance. Whatever the designation in the contract, the operators are the employers for the purpose of this dispute, as contemplated by the War Labor Disputes Act. \* \* \* Section 2 (d) of the War Labor Disputes Act provides that the term 'employer' shall have the same meaning as in section 2 of the National Labor Relations Act. The latter section defines an employer as 'any person acting in the interest of an employer, directly or indirectly \* \* \*' [29 U. S. C. 152 (2)]. See also *In re Atlantic and Gulf Coast Agents of WSA*, 16 War Lab. Rep. 23, 24, 32-36; and cf. exchange of correspondence 20 War Lab. Rep. at 465, 468.

The participation of the War Shipping Administrator, as a signatory employer of the Statement of Principles (46 Code of Fed. Regs. 1943 Supp. p. 2124; 8 F. R. 3454), creating the Maritime War Emergency Board to act in connection with questions of special compensation and bonuses for merchant seamen, was also noted and approved by Congress. H. Rep. No. 107, *supra*, at p. 17. The Maritime War Emergency Board was established on December 18, 1941, by agreement of private ship operators and maritime labor organizations to deal with problems of war compensation and bonus problems which could no longer be adequately solved by the parties because of the lack of current, accurate information. The memorandum of agreement was designated "Statement of Principles." The War

Shipping Administration became a signatory when it began to operate a substantial portion of the merchant fleet. It should be noted that the War Labor Board advised the Maritime Emergency Board that its bonus decisions need not be submitted to the former agency for stabilization review.

Not only the War Shipping Administration and National Labor Relations Board and other federal agencies but the states as well have always recognized WSA seamen as employees of the United States and the vessels as operated by the government. Their general immunity from state and local regulation and taxation has never seriously been questioned. With the exception of California, the authorities of all States which provide coverage for maritime workers in their unemployment compensation laws have refrained from collecting contributions with respect to workers on vessels operated by the War Shipping Administration and husbanded by general agents, since "it is generally understood that \* \* \* [such] workers \* \* \* are considered to be Federal employees." See *Issues in Social Security*, Report to the Ways and Means Committee of the House of Representatives by the Committee's Social Security Technical Staff pursuant to H. Res. 204, 79th Cong., 1st Sess., p. 401; Hearings before the House Ways and Means Committee on H. R. 3736, 79th Cong., 1st Sess., pp. 703-705.

B. Congress, with the passage of the War Shipping Administration (Clarification) Act of March 24, 1943, c. 26, 57 Stat. 45, expressly recognized the status of seamen serving on vessels owned by or bareboat char-



tered to the United States, through the War Shipping Administration, as employees of the United States. By that Act, Congress provided for the exercise by such seamen of rights and benefits under the Jones and Social Security Acts theretofore possessed by seamen employed by private ship operators but previously not available in all cases to those who were government employees because employed by the United States through the War Shipping Administration so that their right to United States Employers Compensation Act benefits were probably their exclusive remedy.

Prior to the date of the passage of that Act, such seamen as employees of the United States were not engaged in employment covered by the Federal Insurance Contributions Act and were not entitled to benefits under the old age benefit provisions of the Social Security Act. The Clarification Act provided for payment on behalf of such seamen and amended Section 1426 of the Internal Revenue Code (26 U. S. C., Supp. V, 1426 (i) and Section 209 of the Social Security Act (42 U. S. C., Supp. V, 409 (o)) so as to cover specifically under the definition of "employment" in those statutes the services performed by seamen employed on vessels owned by or bareboat chartered to the United States and operated by the War Shipping Administration. Without this action by Congress it was not possible for such seamen because of their government employee status, to enjoy the benefits which would have been theirs had they been employees of the general agent. The reports leave no doubt that the status of such crew members as employees of the United States was fully

recognized. See S. Rep. 62, 78th Cong., 1st Sess., pp. 5-6; H. Rep. 107, 78th Cong., 1st Sess., pp. 2, 15.

Again in connection with the Federal Employees' Pay Act of June 30, 1945, c. 212, 59 Stat. 295, 305, Congress recognized the status of WSA seamen as employees of the United States. Since they were all unclassified Schedule A employees, it was unnecessary to make provision in the act for their pay. They were, however, expressly exempted from the ceiling on the number of federal employees. Section 607 (f) provided that, "Until the cessation of hostilities in the present war as proclaimed by the President, the provisions of this section shall not be applicable to \* \* \* individuals \* \* \* to whom the provisions of section 1 (a) of the [War Shipping Administration (Clarification)] Act of March 24, 1943 (Public Law Numbered 17, Seventy-eighth Congress), are applicable."

Further Congressional recognition of the status of such crew members as employees of the United States is found in the provisions of the Social Security Act Amendments of August 10, 1946, c. 951, 60 Stat. 978-981 (26 U. S. C. 1606 (f)), which amended the Federal Employment Tax Act expressly to authorize the states to cover under their unemployment insurance laws services performed by privately employed seamen on interstate voyages. Several states, including the leading maritime states of California and New York, had already taken steps to cover such private seamen at least to the extent of vessels operated from a single state. But in order to permit all maritime states to join in an interstate agreement providing



for the exchange of wage information between the unemployment insurance authorities of the several participating states as a basis for the payment of benefits to seamen serving on vessels operating out of more than one state, it was necessary to amend the federal act so as to authorize the states to cover seamen in the same manner as other employees. In amending the act, Congress expressly excluded from such coverage crew members of vessels operated by the War Shipping Administration. Instead, Congress made specific provision for the payment of benefits to unemployed seamen formerly employed by the War Shipping Administration through general agents on vessels owned by or bareboat chartered to the War Shipping Administration and Maritime Commission.

This was accomplished by the addition to the Social Security Act of Title XIII (42 U. S. C. 1331-1336), authorizing the Federal Security Administrator to enter into agreements with the several maritime states for the payment of benefits during a so-called reconversion period lasting until June 30, 1949. Under such agreements the states will pay compensation to War Shipping Administration seamen just as if they were in fact covered under the state law and in return will obtain reimbursement from the Federal Security Administrator. In the absence of such arrangements, the Federal Security Administrator is directed to make such payments directly to the former government seamen.

The legislative history evidences express recognition that War Shipping Administration seamen were employees of the Government and not of its agents so as

to be taxable by the states. The committee reports of both houses are unanimous in this regard. Thus House Report No. 2526, 79th Cong., 2d Sess., pp. 6-7, stated one of the purposes of the provision to be:

(2) To provide temporary protection for persons whose maritime employment has been with general agents of the War Shipping Administration and thus has been technically Federal employment.

\* \* \* \* \*

To accomplish the second purpose of the title immediate protection is provided seamen whose employment could not have been covered by State laws because they were employed on behalf of the United States by general agents of the War Shipping Administrator. This protection in no event would extend beyond June 30, 1949.

The bill provides in general that these seamen shall receive the same benefits as would have been payable had their Federal maritime employment been under the State unemployment compensation law. \* \* \*

\* \* \* \* \*

The committee recognizes that because of the fact that the great bulk of maritime work has been carried on by employees of the Federal Government since the beginning of the war the mere coverage of private maritime employment under the laws of the several States will not afford full protection for most maritime workers for whatever unemployment may occur in the next 2 or 3 years. The bill therefore authorizes the Federal Security Administrator to make arrangements with the States under the terms of which the States would extend credit

for Federal maritime wages in calculating benefits under their own State laws. The bill further provides that the Federal Government will reimburse the States for such costs as are incurred in the process of crediting Federal maritime wages and paying benefits thereon, which would not otherwise have been incurred.

See also House Report No. 2447, 79th Cong., 2d Sess., pp. 7-9; Senate Report No. 1862, 79th Cong., 2d Sess., pp. 5-6.

The materials set forth above serve only as a partial illustration of the complex nature of the vital operation in which the War Shipping Administration engaged and the practical solutions which have been given to the problems which that Administration faced as it “\* \* \* actively engaged in operating \* \* \* the largest merchant marine in the world’s history. \* \* \*” H. Rep. No. 107, 78th Cong., 1st sess., at p. 12. At all times during this operation, the legal relationship of employer and employee between the United States and civilian seamen of this class has been specifically maintained. At no time has any action ever been taken by either Congress or the executive branch of the Government that would justify the conclusion that seamen of this class are employees of the Government’s shoreside agents such as defendant-appellees.

3. *Appellant Watson makes no contention that he was not fully aware that the United States was his employer and the operator of the “Mesa Verde.”*—Watson’s contract of employment was the shipping articles (Rspt’s Exh. A, R. 19), which were not with Deconhil, but with Captain Rathbun, the Master of

the *Mesa Verde*. By statute they were required to be read or explained to the crew by the United States Shipping Commissioner at the time of their execution and a copy was required to be posted up so as to be visible to the crew at all times (46 U. S. C. 565, 577). Appellant Watson has never denied that this was done and the shipping articles disclose that they were signed by Watson and others with Captain Rathbun on behalf of the War Shipping Administration as "Operating Company on This Voyage" and that it was indicated that Deconhil was only the agent through whose offices communication with the United States in matters concerning the vessel might be had.

Watson was thus fully informed that Deconhil was not operator or owner *pro hac vice* of his vessel. It is well settled that whoever are the operating owners for the voyage are liable on account of wages, maintenance, improper discharge and all other obligations due the seamen. But if the seaman is to recover, he must establish that the party thus sought to be held liable was in fact the operating owner and not a mere agent or time or voyage charterer, nor yet a general owner who has parted with the operation and control of his vessel to another who operates it as owner *pro hac vice*. *Shilman v. United States, et al.*, (2d Cir., 1947) 164 F. 2d 649, cert. den. February 16, 1948; *Everett v. United States Shipping Board* (9th Cir., 1922), 284 Fed. 203, cert. den. 261 U. S. 615; *The Del Norte* (9th Cir., 1902), 119 Fed. 118, 123; *The John E. Berwind* (2d Cir., 1932), 56 F. 2d 13; *Baccarat v. Andrew F. Mahoney Co.* (N. D. Calif.), 1933 A. M. C. 1652, 1656; *Cox v. Lykes Bros.* (1924), 237 N. Y. 376, 143

N. E. 226, 229; *Roberts v. United States Fleet Corp.* (1925), 240 N. Y. 474, 477, 148 N. E. 650, 651.

The action of the court below in holding liable an agent which merely "procured" for its disclosed principal, the United States, the master and crew which the Government employed to manage and navigate the vessel is not only unrealistic in fact but contrary to the express provisions of the statutes and the law maritime. As the court observed in *Hughes v. Southern Pacific Co.*, (S. D. N. Y., 1918) 274 Fed. 876—

Shipping Articles constitute a contract executed by and between the master of a vessel as agent for the owners, and each member of the crew shipped before a United States Shipping Commissioner. The master virtute officii employs and discharges the seamen.

No basis exists for attempting to hold an agent for a disclosed principal when the agent is confined to shore-side duties.

We submit, therefore, that there is no factual basis to be found in the method of operation of the *Mesa Verde* which can justify the decision of the court below and this Court should order the dismissal of the libel.

## II

**The Supreme Court's decisions in *Caldarola v. Eckert* and *Denton v. Yazoo Railroad* require dismissal of appellant's libel**

1. *Caldarola v. Eckert* establishes that appellee Deconhil was not the operator or owner pro hac vice of the Government's vessels, but that the operation of the vessels was exclusively the work of the United



*States*.—Prior to the Supreme Court's decision in *Caldarola*, some confusion existed. It was first thought that because the plaintiff in the *Hust* case had been allowed to recover from the agent, the Supreme Court meant to hold the agents to be the operators or owners *pro hac vice* of the Government's vessels. Indeed there were those who pointed out that not only had Justice Douglas and Black held in their opinion that the agent had been given possession of the vessel and was owner *pro hac vice* (328 U. S. at 735, 738), but that Justices Rutledge and Murphy in their opinion had consistently referred to the agent as the operator of the vessel (328 U. S. at 717, 718, 720, 721, 724, 727, 730, 732) which would come to substantially the same thing. It was common knowledge that the GAA-4-4-42 agreement was not intended to create an *operating* agency but only a *husbanding* agency, and had been uniformly so interpreted by the Congress and the executive branch of the Government. But until *Caldarola*, many thought that *Hust* had held that, despite the intention of Congress and the executive, the Supreme Court had determined to read the contract as an *operating* agreement making the agent the owner *pro hac vice* or operating owner for the voyage. See e. g., *Militano v. United States* (2d Cir., 1946), 156 F. 2d 599, 602.

In *Caldarola*, the Supreme Court dispelled this confusion. The Court confirmed that *Hust* had settled only that a maritime worker might *maintain* the statutory Jones Act suit against one acting for the vessel even though not his employer in the common law sense; not that he might recover in such a suit for the negligence of those for whom the party sued



was not subject to vicarious liability (see *Caldarola*, 332 U. S. at 159; *Hust*, 328 U. S. at 724). But *Caldarola* also established that the agent is not operator or owner *pro hac vice* of the Government's vessels, but is only a shoreside agent or ship's husband and as such is fully liable for the faults and negligence of its own officers, agents and employees, but not for those of the vessel or its operating owner, the United States.

Analysis of the Court's opinion makes this clear. In *Caldarola v. Eckert*, (1947) 332 U. S. 155, *Caldarola*, a longshoreman employed by the Government's stevedore contractor, was injured aboard a War Shipping Administration vessel. He brought suit in the state court against Eckert who was general agent for the vessel under the standard form GAA 4-4-42 agreement. *Caldarola* claimed his injury was caused by a defective boom and that the agent was liable for failing to maintain the vessel in sound condition. The New York Court of Appeals affirmed a decision of the Appellate Division which set aside a verdict for the longshoreman. The Appellate Division had held that nothing in the agency arrangements made the agent any more than managers of certain aspects of the ship's "business" and that the agent was not operator of the ship nor responsible as such (1946 A. M. C. 628, 270 App. Div. 563, 566.) The Court of Appeals held the agent was not the owner *pro hac vice* or operator of the Government's vessel (295 N. Y. 463, 68 N. E. 2d 444). The Supreme Court granted certiorari to resolve an alleged conflict with the *Hust* case (332 U. S. at 157). It affirmed the decision of

the New York Court. The Court's opinion said, "No doubt the petitioner could have sued the United States in Admiralty. Section 2 of the Suits in Admiralty Act, 41 Stat. 525, 46 U. S. C. 742. He chose not to do so. Presumably to obtain the benefit of trial by jury, he asked relief from New York" (p. 157). "After all, the question is not whether petitioner may be compensated for his injury. Congress has made provision for that. Petitioner insists, in order to enable him to sue in the courts of New York, that the agents are to be deemed, as a matter of federal law, owners of the vessel *pro hac vice*" (p. 159).

Overruling the dissents of the same four judges responsible for *Hust*, the other five judges unanimously rejected, as not required by its previous decisions, the construction of the agency agreement now relied on by Watson. The *Hust* case was declared by the majority opinion (332 U. S. at 159) as meaning no more than that "under the agency contract the agent was the 'employer' of an injured seaman as that term is used in the Jones Act, and a seaman could therefore bring the statutory action against such an 'employer.'" (332 U. S. at 159.) Recovery is thus possible wherever plaintiff has suffered any injury resulting "from the negligence of any of the officers, agents or employees" of such an "employer" (see 45 U. S. C. 51, 46 U. S. C. 688). But continued the opinion, "The Court did not hold that the agency contract made the agent for all practical purposes the owner of the vessel. It did not hold that it imposed upon him as a matter of federal law, duties of care to third persons" (p. 159). And the court made no

distinction between third persons who were seamen and those who, as *Caldarola*, were longshoremen. The *Brady* case was "likewise remote from the issues decisive of this case. It merely held that the Suits in Admiralty Act, by furnishing an *in personam* remedy against the United States, did not free the agent from liability for his own torts" (p. 160). Thus it appears that in the unanimous view of the five judges both *Brady* and *Hust* have nothing to do with the question of what circumstances justify imposing liability on a Government agent in favor of seamen, passengers, longshoremen or other third persons. They establish only that there is no impediment to maintaining suit.

*Caldarola* has thus established that the existence of the right of a seaman or other third party to sue the agent, whether under the Jones Act or the general maritime law and whether for tort or contract, does not impose liability on the agent in situations where the law of principal and agent and of *respondeat superior* does not impute to the general agent liability for the acts and neglects of the United States and those who are acting only as its servants or agents. Thus in the case at bar, appellee Deconhil was not the owner *pro hac vice* or operator of the Government's vessels. Accordingly, their operation was not the work of Deconhil and it was not liable for the fault and negligence of the master and crew which resulted in Watson's injury. The latter's unquestionable right to maintain the present suits does not carry with it an automatic right to recover for the negligence of the master and crew. Recovery

requires that Watson prove that Deconhil breached a duty which it owed to him. This he failed to do. Instead he has proven only that his injuries resulted from the negligence of the crew of the vessel. But the crew were the agents and servants of the operator of the ship, which the Supreme Court has settled in *Caldarola* is the United States and not Deconhil, the Government's agents for the management of certain aspects of the vessel's shoreside business.

2. *Denton v. Yazoo Railroad establishes that liability cannot be imposed on Deconhil for the negligence of the master and crew in doing work which was exclusively that of the United States.*—Since it is settled that the United States, not appellee Deconhil, was operating the vessel, the work of the vessel in the course of which appellant Watson was injured was exclusively the work of the United States. Under the name of the loaned servant rule, it is familiar that even one in the general service of an employer who is loaned to another for a particular employment is dealt with by the law as the servant of the latter with respect to anything occurring in doing the work of such an employer *pro hac vice*. In the often quoted case of *Standard Oil Co. v. Anderson*, 1909) 212 U. S. 215, the Court pointed out that the master is answerable for the wrongs of his servant, not because he has authorized them nor because the servant in his negligent conduct represents the master. Liability is imposed because the servant was conducting the master's affairs, and the master is bound to see that his affairs are so conducted that others are not injured (212 U. S., at



221). But, the opinion continues, "The master's responsibility cannot be extended beyond the limits of the master's work. If the servant is doing his own work or that of some other, the master is not answerable for his negligence in the performance of it" (p. 221). "To determine whether a given case falls within the one class or the other we must inquire whose is the work being performed, a question which is usually answered by ascertaining who has the power to control and direct the servants in the performance of their work" (pp. 221-222).

This rule has always been held applicable to the general employees of a private employer loaned to do work of the United States. In such cases it is held that, although employed and paid by their private employer, the employees while doing the work of the United States are the servants of the United States and the Government alone and not the private employer is liable for their negligence. The leading case of *Denton v. Yazoo & M. V. R. R. Co.* (1932), 284 U. S. 305, settles that the private general employer is not liable. There, suit for injuries was brought in the state court against the railroad and others by Denton, a United States mail clerk. Denton claimed that Hunter, a porter employed and paid by the railroad, while engaged in loading United States mail into a mail car, under the direction of a United States postal transfer clerk, had negligently injured him. It was found that as to the work in question, the porter was not under the direction or control of the railroad. The applicable regulations and contract between the railroad and the United

States required the railroad to “furnish the men necessary to handle the mails, to load them into and receive them from the doors of railway post office cars, and to load and pile the mails in and unload them from storage and baggage cars under the direction of the transfer clerk, or clerk in charge of the car” (284 U. S. at 307). Pursuant to a jury verdict, judgment was entered for Denton against the railroad and all other defendants. On appeal the Supreme Court of Mississippi reversed as to the railroad. It held the railroad was not liable to Denton because the work Hunter was doing at the time of his negligence was not that of his general employer, the railroad, but that of his employer *pro hac vice*, the United States. His negligence was therefore not imputed to the railroad. The Supreme Court of the United States affirmed. The opinion said (284 U. S. at 308-309):

Whether the railroad companies may be held liable for Hunter’s act depends not upon the fact that he was their servant generally, but upon whether the work which he was doing at the time was their work or that of another, a question determined, usually at least, by ascertaining under whose authority and command the work was being done. When one person puts his servant at the disposal and under the control of another for the performance of a particular service for the latter, the servant, in respect of his acts in that service, is to be dealt with as the servant of the latter and not of the former. This rule is elementary and finds support in a large number of decisions, a few only of which need be cited. In



*Standard Oil Co. v. Anderson*, 212 U. S. 215, 220-225, this court said:

“The servant himself is, of course, liable for the consequences of his own carelessness. But when, as is so frequently the case, an attempt is made to impose upon the master the liability for those consequences, it sometimes becomes necessary to inquire who was the master at the very time of the negligent act or omission. One may be in the general service of another, and, nevertheless, with respect to particular work, may be transferred, with his own consent or acquiescence, to the service of a third person, so that he becomes the servant of that person with all the legal consequences of the new relation.

\* \* \* \* \*

“To determine whether a given case falls within the one class or the other we must inquire whose is the work being performed, a question which is usually answered by ascertaining who has the power to control and direct the servants in the performance of their work. Here we must carefully distinguish between authoritative direction and control, and mere suggestion as to details or the necessary cooperation, where the work furnished is part of a larger undertaking.

\* \* \* \* \*

“In many of the cases the power of substitution or discharge, the payment of wages and other circumstances bearing upon the relation are dwelt upon. They, however, are not the ultimate facts, but only those more or less useful in determining whose is the work and whose is the power of control.”

So every similar attempt to recover from private companies for the negligence of their employees in the course of doing the work of the United States has been rejected. See *Norfolk & W. Ry. Co. v. Hall* (4th Cir., 1932), 57 F. 2d 1004, 1008; *McLamb v. DuPont* (4th Cir., 1935), 79 F. 2d 966; and cf. *Hardy v. Shedden Co.* (6th Cir., 1897), 78 Fed. 610, 613; *Byrne v. Kansas City, Ft. S. & M. RR. Co.* (6th Cir., 1894), 61 Fed. 605.

That rule is controlling here. It is thus established that it is immaterial whether the general agent, is held to be general employer of the master and crew of the Government's vessel or only "employer" within the technical meaning of the Jones Act for the purpose of enabling injured seamen to bring the statutory action against such an "employer." In neither event is any general agent liable for the negligence of the master and crew in the navigation and management of the Government's vessels. That Article 3A (d) of the agency agreement makes the master exclusively "an agent and employee of the United States" with respect to "the navigation and management of the vessel" renders it clear beyond all question that defendant-appellants here, like the railroad in *Denton's* case, are not subject to vicarious liability for the acts of the master and crew. As the Supreme Court said in *Sun Oil Co. v. Dalzell Towing Co.* (1932), 287 U. S. 291, of a libellant's similar attempt to extend the responsibility of the general employer (pp. 294-295): "Respondent's responsibility is not to be extended beyond the service that it undertook to perform. It did not furnish pilotage. The provision that its tug cap-

tains while upon the assisted ship would be the servants of her owner is an application of the well-established rule that when one puts his employee at the disposal and under the direction of another for the performance of service for the latter, such employee while so engaged acts directly for and is to be deemed the employee of the latter and not of the former."

The agent is not the owner *pro hac vice* or operator of the vessel. That is the work of the United States and it alone is liable. So in the circumstances here involved, the work of the master and crew was not the work of appellee Deconhil, but of the vessel's operator, the United States. Appellant Watson's undoubted right to *maintain* the present suits against Deconhil does not justify his *recovering* in the absence of proof that those who negligently injured him were doing the latter's work. This he has not proven. Instead he has proved that he was injured as a result of negligence of the master and crew who were doing the work of the operator of the ship which the Supreme Court in *Caldarola* held was the United States, not the agent. Accordingly the suit against appellee Deconhil is without legal foundation and should be dismissed.

3. *The dismissal of appellant Watsons suit compelled by the Caldarola and Denton decisions is equally required by the Brady and Hust cases.*—Nothing in the cases of *Brady* or *Hust* prevents the operation of the rule established by the *Caldarola* and *Denton* decisions which require that appellant Wat-

son's suit be dismissed. As explained by the five judges in *Caldarola*, the cases of *Brady* and *Hust* hold only that an injured third party may freely bring his action against the general agent under either the general maritime law or the Jones Act as he may deem appropriate. The explanation in the *Caldarola* opinion makes it plain that the status of the agent as "employer" extends no further than its technical application in making the statutory remedy of the Jones Act available against the agent for "negligence of any of the officers, agents or employees" of the agent itself. It does not make the agent vicariously liable for the negligence of those who at the significant moment are the agents and servants of the United States as operating owner of the vessel.

*Brady* and *Hust* did not alter the fundamental legal relationships of the parties so as to make the agent the master or employer of the officers and crew for purposes of ultimate control within the *respondeat superior* rule (see *Hust*, 328 U. S. at 723) nor within the rule of ownership *pro hac vice* (see *Caldarola*, 332 U. S. at 159). Thus in distinguishing *Brady* and *Hust*, the Supreme Court said in *Caldarola* (332 U. S. at 159):

*Hust v. Moore-McCormack Lines, supra*, arose under the Jones Act. (Act of March 4, 1915, 38 Stat. 1185, as amended June 5, 1920, 41 Stat. 1007). We there held that under the agency contract the agent was the "employer" of an injured seaman as that term is used in the Jones Act, and a seaman could therefore bring the statutory action against such an "employer." The

Court did not hold that the agency contract made the agent for all practical purposes the owner of the vessel. It did not hold that it imposed upon him, as a matter of federal law, *duties of care to third persons*, \* \* \* *Brady v. Roosevelt Steamship Co.*, 317 U. S. 575, is likewise remote from the issues decisive of this case. It merely held that the Suits in Admiralty Act, by furnishing an *in personam* remedy against the United States, did not free the agent *from liability for his own torts*. The *Brady* case did not reach the "different question" whether "a cause of action" against the agent had been established. 317 U. S. at 585. [Italics supplied.]

Analysis of the decisions themselves shows that no new liability was intended to be imposed. *Brady v. Roosevelt* (1943), 317 U. S. 575, only established that the status of government agent does not exempt the agent from suit. *Brady's* case did not arise under a *general agency* agreement like that here involved, but under a special interim form of *operating agreement* (see letter of General Counsel, U. S. Maritime Commission, Appendix, *infra*, pp. A-6, A-15 *et seq.*). This special Roosevelt agreement was specifically intended to make the agent owner *pro hac vice* or operating owner of the vessels during the time they were allocated to it, just as does a bareboat charter. The special operating agreement provided that the agent was "to manage, operate, and conduct the business of the line" and stated that the vessels were delivered "for management and operation" and that the agent undertook to "man, equip, victual, supply and operate the vessels."



The Government reserved the right to survey at any time "the vessels *operated by the managing agent* hereunder."

But despite this language which clearly made Roosevelt the operating owner or owner *pro hac vice*, the Supreme Court was urged in the *Brady* case to hold that by reason of the Suits in Admiralty Act and Roosevelt's status as a government agent, it was immunized against all liability for even its own personal faults. The Court emphatically rejected this view. The Court expressly recognized that the special operating agreement made Roosevelt operator or owner *pro hac vice* of the vessel. The opinion said, "S. S. *Unicoi* was a vessel owned by the United States Maritime Commission and *operated for it by respondent*." (317 U. S. at p. 576.) "The sole question here is whether the Suits in Admiralty Act makes private operators such as respondent nonsuable for their torts" (p. 577).

The question thus posed the Court answered with an emphatic negative. "The liability of an agent for his own negligence has long been imbedded in the law \* \* \* the principle is an ancient one and applies even to certain acts of public officers or public instrumentalities" (p. 580). "But it is a *non sequitur* to say that because the [Suits in Admiralty] Act \* \* \* restricts the remedies against the United States and its wholly owned corporations, it must be presumed to have abolished all right to proceed against all other parties" (p. 582). "The question is not whether the Commission had authority to delegate to respondent responsibilities for managing



*and operating the vessel as its agent. It is whether respondent can escape liability for a negligent exercise of that delegated power if we assume that by contract it will be exonerated or indemnified for any damages it must pay*" (pp. 583-584). "We hold that the Suits in Admiralty Act did not deprive petitioner of the right to sue respondent for damages for his maritime tort. Whether a cause of action against respondent has been established is, of course, a different question" (pp. 584-585).

And so in the case at bar the circumstance that there is no impediment to plaintiff-appellants maintaining these suits against defendant-appellees does not establish that they have a right of recovery. But instead we are presented with the "different question" of whether plaintiff-appellants have a cause of action and can establish that defendant-appellees, rather than the United States, are the operators or owners *pro hac vice* of the vessels so as to be liable for negligence of the master and crew. We submit that we have shown that plaintiff-appellants have no such causes of action and must fail in these suits.

Nor is there any indication in *Hust v. Moore-McCormack* (1946), 328 U. S. 707, that the agent was to be held liable for those who were not its agents and servants because it was not operating the vessel. *Hust* only establishes that seamen have the right to Jones Act remedies against the agents who "procure" them for engagement by the masters of government vessels. It does not establish any right to recover either damages under the Jones Act or wages, maintenance, and cure under the general mari-

time law from one who is not found to be operating the ship.

*Hust's* case arose under the standard form agency agreement GAA 4-4-42 here involved. But it came to the Court on a record in which it had been expressly admitted by Moore-McCormack's answer to the complaint that Moore-McCormack were *operators* of the vessel.<sup>8</sup> It would seem that the four-judge majority opinion of Justice Rutledge accepted this admission as controlling, for without any consideration of the evidence on the point the opinion consistently refers to the agent as the *operator* of the vessel (228 U. S. at 717, 718, 720, 721, 724, 727, 730, 732). These four judges, who later dissented when the other five held in *Caldarola* that the agent is not the operator, in *Hust* held that in the circumstances shown by that record a seaman procured by such a general agent for service as a member of the crew of such a vessel may sue the agent as his employer within the technical meaning of the Jones Act.

The four-judge majority did not decide whether in the circumstances the master and crew of the vessel were so subject to the control of the agent that the latter was responsible for their acts under the rule of *respondeat superior* or otherwise and indeed the implication is that the agent is not (see 328 U. S. at 724). To do so, it would have been

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<sup>8</sup> U. S. Sup. Ct., Oct. Term 1945, No. 625, R6, Paragraph I: "Admits that at the time of the accident alleged it was operating the Liberty Ship S. S. *Mark Hanna* for and on behalf of the United States of America, represented by the War Shipping Administration under a written agency agreement prescribing and limiting the duties, authority and functions of this defendant."

necessary for the four to overrule *Denton v. Yazoo Railroad*. However, in line with the admission of the answer the majority opinion of Justice Rutledge, concurred in by Justice Murphy, throughout called Moore-McCormack an "operating agent" and stated the facts as if it were a case of the negligent failure of Moore-McCormack to supply the seamen a safe place to work: "The electric bulb lighting the locker room had burned out and the room was dark. While crossing it to get the line, Hust fell through an unguarded hatch about twelve feet to the third deck" (328 U. S. at 712). While it is not clear in what the Court thought the negligence to consist, there was, of course, no need to specify if Moore-McCormack was "operating agent" and therefore *operator* of the vessel. (Compare other cases where concessions in the record that the agent was operating the vessel were treated as establishing liability of the agent as operating owner are *Carrol v. United States* (2d Cir., 1943), 133 F. 2d 690; *U. S. Fleet Corp. v. Greenwald* (2d Cir., 1927), 16 F. 2d 948, 951. Contrast where no such concession was made and proof to the contrary was proffered, *Roberts v. U. S. Fleet Corp.*, 240 N. Y. 474, 477, 148 N. E. 650, 651.)

Thus the Rutledge opinion announced, "Specifically, in this case the question is whether petitioner Hust retained the seaman's usual right to jury trial in a suit against the respondent, pursuant to the provisions of the Jones Act, for personal injuries incurred in the course of his employment as a seaman on the S. S. "Mark Hanna" (328 U. S. at 711). "The Supreme Court of Oregon considered that the

controlling question was whether Hust was respondent's employee when the injuries were incurred; and that 'it must be assumed \* \* \* that the case is governed by the rule of the common law' to determine this question and thus the outcome of the case" (p. 713). "Hence, applying the common law 'control' test, the court came to its conclusion that Hust was not respondent's employee as that relation is contemplated in the ones Act" (p. 714).

This view the Rutledge opinion rejected so far as regards the definition of who are employees entitled to bring suit under the Jones Act. With the emphasis supplied by us to the significant words, the opinion said, "We may accept the Oregon court's conclusion that technically the agreement made Hust an employee of the United States *for purposes of ultimate control* in the performance of his work" (p. 723). "But it does not follow from the fact that Hust was technically the Government's employee that he lost *all remedies* against the operating 'agent' for such injuries as he incurred" (p. 724). "It is true these [tests] are applied in the normal everyday applications of the Jones Act. But in those situations this is done to determine who comes within, who without, the covered class in the Act's normal operation, not to exclude that class entirely or in large part" (pp. 724-725). "The mere fact that the terms of the standard agreement<sup>9</sup> were changed to omit the

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<sup>9</sup> Justice Rutledge was in error in regarding the special interim *operating agreement* involved in the *Brady* case as a standard form. As pointed out in the letter from the General Counsel, U. S. Maritime Commission, *infra*, Appendix, p. A-6, that exceptional agreement was in effect with only four companies.

provision for manning the ship and substitute the provisions relating to employees contained in the general service agreement was not, in these circumstances, enough to deprive seamen *of that remedy*" (pp. 730-731).

For reasons not susceptible of precise analysis the Rutledge opinion concluded that suit under the Jones Act was available to plaintiff and the cause was remanded for further proceedings (328 U. S. at 734), but settlement was subsequently authorized by the United States without further proceedings being had with respect to the question of *liability* as opposed to *sua-bility*. Two of the four majority judges (Douglas and Black, JJ.) filed a separate concurring opinion expressing the view that although there was no demise the "private operator" had possession and sufficient control to be deemed owner *pro hac vice* (328 U. S. at 735, 736, 738). The three dissenting judges (Reed, Frankfurter, and Burton, JJ.) rejected this extension of the Jones Act and also denied that the agent was owner *pro hac vice* in possession and control (328 U. S. at 738). In *Caldarola v. Eckert*, (1947) 332 U. S. 155, this minority of three, with the addition of Vinson, C. J., and Jackson, J., became a majority of five and formally rejected the view that the agent was owner *pro hac vice* or operator of the Government's vessels. The law is now established to that effect which accords with the law maritime as understood prior to *Hust*.

We submit, therefore, that nowhere in *Hust*, any more than in *Brady*, can any basis be found for concluding that when sued under the rule of those cases,



the agent can be held liable for the negligence of the master and crew of a vessel of which not the agent but the United States was operating owner in possession and control.

### III

#### **The Clarification Act does not operate to make Deconhil liable for the negligence of the master and crew of the *Mesa Verde***

1. *The purpose of the Clarification Act was solely to give War Shipping Administration seamen the benefits of the Jones and Social Security Acts instead of the United States Employees' Compensation and Civil Service Retirement Acts.*—Neither the legislative history nor the language of the War Shipping Administration (Clarification) Act of March 24, 1943 (50 Appx. U. S. C. 1291), contains the slightest suggestion that Congress intended to impose liability upon the Government's shoreside agents for acts of other agents and servants of the United States engaged in the navigation and management of its vessels.

Never in the course of the extended preparatory work from which the Clarification Act resulted was there the slightest suggestion that a right to recover from the Government's agents for the acts of the master and members of the crew of the vessels operated by the Government was thought to exist or was intended to be given. The sole purpose and effect of the Act was to alter the rights of WSA seamen vis-a-vis the United States. The civilian seamen employed by the War Shipping Administration during the wartime expansion were not career employees of the Government like most of those of the Army Transport Service. Many WSA seamen already had accounts



under the Social Security Act, but during their government service they would be deprived of their benefit. It was even likely that their Social Security accounts might lapse because they were for too long a time engaged in the "noncovered" employment of government service. Moreover, their right to sue the United States under the Jones Act as their employer would be seriously limited by the Government's position that their remedy under the U. S. Employees' Compensation Act as government employees is exclusive and bars recovery from the United States in any type of suit. See *Posey v. T. V. A.* (5th Cir., 1937), 93 F. (2d) 726; *O'Neal v. United States* (E. D. N. Y., 1925), 11 F. (2d) 869, aff'd *ibid.*, 11 F. (2d) 871. Besides, whenever the government vessel was employed exclusively as a public vessel and not as a merchant vessel, jurisdiction for a Jones Act suit was not available under the Suits in Admiralty Act but had to be found under the Public Vessels Act. Yet, until recently there was serious question as to whether suits for personal injuries and death or for maintenance, cure, and wages could be brought under the Public Vessels Act at all. See *American Stevedores v. Porello* (1947), 330 U. S. 446, 453, 458; *United States v. Loyola* (9th Cir., 1947), 161 F. (2d) 126; *Jentry v. United States* (S. D. Calif., 1947), 73 F. Supp. 899, 902.

To remedy these difficulties in the exercise of their Jones Act remedy against the United States which it was feared might deter civilian seamen from shipping on WSA vessels, the War Shipping Administration took action. A bill, H. R. 7424, 77th Cong., 2d Sess.,

which eventually became the Clarification Act, was introduced and hearings were held by the House Merchant Marine and Fisheries Committee on September 2, 1942. These proceedings show conclusively that no right to sue the Government's agents was intended to be conferred by the Clarification Act. At the hearings a written report was received from Admiral E. S. Land, War Shipping Administrator, which stated in part (p. 8):

Section 1 of the bill provides that seamen employed by or on behalf of the War Shipping Administration would have those rights, benefits, and immunities to which they would be entitled if employed on privately owned and operated vessels, and that they would not, by virtue of their status as Federal employees, become entitled to the benefits generally provided for such employees. The benefits to private seamen would include rights with respect to claims for death, injuries, illness, loss of effects, detention, and repatriation, and wages, maintenance, and cure, and old-age pension benefits. The claims would be enforceable by suit against the United States only under the Suits in Admiralty Act. This section would expressly exclude any benefits under the United States Employees' Compensation Act or the Civil Service Retirement Act.

Testifying orally at the hearing before the Committee, Admiral Land explained in greater detail (p. 14):

As private employees, seamen are entitled to the protection of the old-age benefit provision of the Social Security system; they and their dependents may recover damages for injury or

death of seamen through the provisions of the Jones Act, they are protected by other remedies and they have certain rights with respect to allocation of wages. When the same seamen work on vessels which are bareboated or owned by the War Shipping Administration they become Government employees and these rights, which union labor has learned to prize very highly, either cease to exist or are substantially impaired. In exchange for such lost privileges, these seamen acquire special privileges of Government employees such as right to compensation for injury under the United States Compensation Act, a questionable right to retirement benefits and other rights peculiar to Government employees.

\* \* \* it seems to us that since the interval of Government operation represents but a temporary phase of the history of the merchant marine, it would be best to maintain the status of seamen as private employees with respect to such matters. This also seems to be the desire of the interested Government agencies as well as the labor unions representing seagoing personnel, and should have the effect of helping to maintain that high morale amongst the personnel which is essential for the effective discharge of their arduous duties.

Section 1 of the proposed bill would solve all these difficulties by providing that seamen employed by or on behalf of the War Shipping Administration shall have the rights, benefits, and immunities to which they would be entitled if employed on privately owned and operated vessels with respect to death and injury claims, social-security benefits, allotments, and other

matters covered by this section. Such claims would be enforceable by suits against the United States under the Suits in Admiralty Act and the War Shipping Administration would be authorized to make payments under the social-security program to the same extent as a private employer of seamen.

Samuel J. Hogan, President, National Marine Engineers Beneficial Association, explaining the views of one of the seamen's unions, testified (p. 27):

Because of the exigencies of the war program, certain changes have taken place and we find ourselves in the anomalous position of losing social-security benefits while engaged in an active war for greater security.

With the beginning of the national emergency, the Army Transport Service took over many of the merchant marine ships and at the same time discontinued social-security payments on the theory that the crew had become Government employees, and were hence exempted from the provisions of the act. Then the War Shipping Administration increased the number of ships which it was operating, and the picture became even more confused.

Under the War Shipping Administration, ships are operated on two bases, the time charter and the bareboat charter. Under the time charter, social-security payments are continued as heretofore because the War Shipping Administration pays the agent; but in the case of the bareboat charter, no social-security deductions are made again on the theory that seamen on these ships are employees of the

Government, and technically, not covered by the benefits of the act. The unfairness and confusion this creates is readily apparent. Seamen transfer from one boat to another. On one ship they may be allowed to make social-security payments; on the next voyage, they may not. The whole purpose of the social-security program—giving these men some security for the future—is thus completely nullified. Obviously, the fact that these boats are operating under varying financial arrangements between the War Shipping Administration and the operators, is not a valid reason for denying to these men benefits given to them under the Social Security Act.

It is clear that there was no intention to grant a new right to recover from the agent for liabilities otherwise resting exclusively upon the United States—which would, of course, have entailed the right to jury trial in the state or federal courts. Nor was there any belief that recovery might be had against the agent for the faults of the master and crew. A serious point was made of the fact that jury trial would not be permitted against the United States by the proposed act. A matter which would have been of no consequence if recovery might be had from the Government's agents. A statement submitted by William L. Standard in behalf of the National Maritime Union, made the following argument (p. 31):

\* \* \* If, therefore, H. R. 7424, in excluding merchant seamen from the benefits of the United States Employees' Compensation Act, afforded to merchant seamen employed on Government vessels, exactly the same rights now



enjoyed by them as employees of privately owned vessels, the unions would naturally have no opposition to the adoption of such a bill.

Unfortunately, section 1 of H. R. 7424, at line 6, page 2, provides the following:

“Any claim referred to in clause (1) hereof shall, if administratively disallowed in whole or in part, be enforced pursuant to the provisions of the suits in Admiralty Act, notwithstanding the vessel on which the seaman is employed, is not a merchant vessel within the meaning of such act.”

In requiring merchant seamen to present their claims under the suits in admiralty act, a definite limitation is imposed upon the exercise of their rights.

Under the suits in Admiralty Act, while it is true that merchant seamen enjoy the benefits of the Jones Act, and their rights are adjudicated pursuant to that act, the trial takes place before a Federal judge without the benefit of a jury trial.

The suits in admiralty act was adopted in 1920. Until the United States Supreme Court rendered its decision in 1930, in the cases of *Johnson v. United States*, *United States v. Lustgarten*, *Federal Sugar Refining Co. v. United States*, and *Royal Insurance Co. v. United States*, reported in 53 Supreme Court Reporter, at page 118 (280 U. S. 320), seamen had been permitted to prosecute their claims against the Shipping Board on the common-law side of the court with the benefit of a trial by jury. The Supreme Court in the *Johnson* case, based its decision on the presumed “intention of Congress to furnish the exclusive remedy in ad-



miralty against the United States and the corporations on all maritime actions arising out of possession or operation of merchant vessels."

The N. M. U., therefore, recommends that, in order that merchant seamen employed by the War Shipping Administration should not be deprived of a trial by jury, after the word "Act," at line 11, page 2, of the bill, the following be inserted:

*"Provided, however, That the claimant may, at his election, maintain an action for damages at law, with the right of a trial by jury, and in such action the claimant may enjoy the same rights, benefits, exemptions, privileges, and liabilities of seamen employed on privately owned and operated vessels."*

Attorney General Biddle submitted a reply on behalf of the Government explaining why jury trial was not compatible with the interest of the United States. He stated in part (p. 33):

I have no wish to oppose jury trial in these cases if to the Congress the adoption of such a policy seems wise. There are certain considerations which I think should be taken into account in reaching your conclusion on the issue of policy involved.

\* \* \* \* \*

(2) It has been found necessary in protecting the security of the Nation to adopt an amendment to admiralty rule 46. It has been found that in the course of admiralty litigation information is made available to the enemy detrimental to the national safety and detrimental to the lives and welfare of seamen. The

amendment to admiralty rule 46 contemplates careful surveillance of admiralty litigation and control of the proceedings to prevent leakage of information that might be of value to the enemy and of danger to the United States. The scheme of this protection is that every libel is submitted to me; and my assistants, in collaboration with appropriate officers of the Navy, examine the litigation. If the Navy Department is of the view that information stated in the pleadings or liable to be developed in the course of the trial would be of value to the enemy, admiralty rule 46 authorizes the court to impound the pleadings, to hold the trial in camera and to impound all records in the proceedings. It is possible for this to be effective if the matter is heard by a judge. It is much more difficult for it to be effective if it is tried before a jury, and, of course, the rule will not apply if the action is at law. Obviously in trial of cases on claims asserted by seamen because of death, injury, illness, loss of effects, detention, or repatriation, disclosures regarding formation and operations of convoys, routes, protection for shipping, etc., might well be made in the course of trial.

\*                      \*                      \*                      \*                      \*

(4) It is further to be noted that these cases will have to be tried largely on depositions. Judges are better qualified by experience than juries to appraise the value of evidence presented in the form of depositions.

That the Congress thoroughly understood that agents were not liable and that the purpose of the Clarification Act was not to authorize suit against

the Government's agents for negligence of the master and crew with the consequent jury trial in the state and federal courts which it had decided to avoid, is further shown by House Report No. 2572, 77th Cong., 2d Sess., where it is said of the War Shipping Administration seamen (p. 9):

\* \* \* If they were private employees, rights to redress for death, injury, or illness could be prosecuted under the Jones Act and the general maritime law. These same rights may be asserted against the United States as the employer under the Suits in Admiralty Act providing the vessel involved is a merchant vessel. In case of public vessels the seaman must rely upon the Administrator's policy for compensation recognizing contractual liability which this legislation recognizes. Present-day operating conditions often make uncertain whether the vessel is a merchant or a public vessel. As a consequence the afore-mentioned rights of such seamen are frequently in doubt, In addition to these rights which, at times, are uncertain for the reasons mentioned, the seamen who are employees of the United States probably have rights under the United States Employees' Compensation Act in the event of injury or death. Such compensation benefits are not presently enjoyed by seamen under private employment. Thus vital differences in these rights are made to depend upon whether the seaman happens to be employed aboard a vessel time-chartered to the War Shipping Administration or owned by or bareboat-chartered to the War Shipping Administration.

The point is made equally plain in Senate Report No. 1655, 77th Cong., 2d Sess., where it is stated (pp. 3-4):

The substantive rights under statute and general maritime law with respect to death, injury, illness, or other casualty to seamen employed by the War Shipping Administration would under section 1 be controlled by existing law relating to privately employed seamen. The only modification thereof is that the rights shall be enforced in accordance with the provision of the Suits in Admiralty Act. Other claims, such as claims for maintenance and care, collection of wages and bonuses, and making of allotments, would also be enforced under that act. With respect to the benefits administered by the Public Health Service and the Social Security Board, section 1 provides that claims therefore shall be enforced only in accordance with existing applicable law. This is proper inasmuch as these benefits are administered by Government agencies.

\*        \*        \*        \*

Inasmuch as seamen covered by section 1 will be entitled to the rights provided under the Jones Act and general maritime law and to the remedies under the Suits in Admiralty Act, they are expressly excluded from any benefits which would otherwise accrue as employees of the United States under the United States Employees' Compensation Act. This eliminates the danger that seamen might recover both against the Federal employees' compensation fund and under statutory or common law remedies for the same injury.

And to the same effect, see Senate Report No. 1813, 77th Cong., 2d Sess., pp. 5-6.

With the close of 1942 the Seventy-seventh Congress ended and H. R. 7424 died. With amendments it was reintroduced as H. R. 133, 78th Cong., 1st Sess. Despite the *Brady* case, decided January 18, 1942, no change was made in the bill to make the government's agents liable. Indeed, its purpose was again explained on February 8, 1943, in House Report No. 107, 78th Cong., 1st Sess. (pp. 2-3):

The effect of section 1 is to provide that officers and crew members who are employed on behalf of the United States through the War Shipping Administration shall be put on the same basis as seamen in private employment with respect to rights, benefits, and privileges in connection with employment, particularly in case of death, injury, or other casualty. Under the bill, these employees of the War Shipping Administration will have the seaman's right to wages, maintenance, and cure, in case of illness or injury in the ship's service. They will have the benefits of the Public Health Service, including marine hospitals, like other seamen. They will have old-age and survivors' insurance under the Social Security Act. They will continue to have the right to indemnity through court action for injury resulting from unseaworthiness of the vessel or defects in vessel appliances, and they (and their dependents) will have the right to action under the Jones Act (1920) for injury or death resulting from negligence of the employer. Such seamen will have the right to



enforce claims for these benefits according to the procedure of the Suits in Admiralty Act except that claims with respect to social-security benefits shall be prosecuted in accordance with the procedure provided in the social-security law. \* \* \*

\* \* \* \* \*

The basic scope and philosophy of the measure is to preserve private rights of seamen while utilizing the merchant marine to the utmost for public wartime benefit. Except in rare cases the ships themselves are being operated as merchant vessels, and are therefore subject to the Suits in Admiralty Act. Granting seamen rights to sue under that act is therefore entirely consistent with the underlying pattern of the measure. This should follow even in the extraordinary case where vessels might otherwise technically be classed as public vessels.

See also additional extracts printed in 1943 A. M. C. 606-637. And see pertinent parts of Senate Report No. 62, 78th Cong., 1st Sess.

2. *The actual terms of the Clarification Act do not authorize suit against the Government's agents or alter their liability in tort or contract.*—Not a word in the text of the act gives the slightest suggestion to that effect. The bill became law on March 24, 1943, and was printed with explanatory headings in 1943 A. M. C. 594. Because, when thus printed, it clearly shows that the text of the act, like its legislative history, is totally devoid of any suggestion of authority to sue the Government's agents, we here



reproduce Section 1 (a), the only pertinent part, with the headings inserted by the editors of American Maritime Cases—

RIGHTS OF MERCHANT SEAMEN EMPLOYED BY THE  
U. S. THROUGH THE W. S. A.

SEC. 1. That (a) officers and members of crews (hereinafter referred to as "seamen") employed on United States or foreign-flag vessels as employees of the United States through the War Shipping Administration shall, with respect to (1) laws administered by the Public Health Service and the Social Security Act, as amended by subsection (b) (2) and (3) of this section; (2) death, injuries, illness, maintenance and cure, loss of effects, detention, or reparation, or claims arising therefrom not covered by the foregoing clause (1); and (3) collection of wages and bonuses and making of allotments, have all of the rights, benefits, exemptions, privileges, and liabilities, under law applicable to citizens of the United States employed as seamen on privately owned and operated American vessels.

NO RIGHTS UNDER CERTAIN FEDERAL EMPLOYMENT  
STATUTES

Such seamen, because of the temporary war-time character of their employment by the War Shipping Administration, shall not be considered as officers or employees of the United States for the purposes of the United States Employees Compensation Act, as amended; the Civil Service Retirement Act, as amended; the Act of Congress approved March 7, 1942 (Public Law 490, Seventy-seventh Congress); or the Act

entitled "An Act to provide benefits for the injury, disability, death, or detention, of employees of contractors with the United States and certain other persons or reimbursement therefor," approved December 2, 1942 (Public Law 784, Seventy-seventh Congress).

#### PUBLIC HEALTH AND SOCIAL SECURITY CLAIMS

Claims arising under clause (1) hereof shall be enforced in the same manner as such claims would be enforced if the seamen were employed on a privately owned and operated American vessel.

#### DEATH, INJURY, MAINTENANCE, WAGE, ETC., CLAIMS (SUITS IN ADMIRALTY ACT 1920 EXTENDED)

Any claim referred to in clause (2) or (3) hereof shall, if administratively disallowed in whole or in part, be enforced pursuant to the provisions of the Suits in Admiralty Act, notwithstanding the vessel on which the seaman is employed is not a merchant vessel within the meaning of such Act.

#### RETROACTIVE EFFECT TO OCTOBER 1, 1941

Any claim, right, or cause of action of or in respect of any such seaman accruing on or after October 1, 1941, and prior to the date of enactment of this section may be enforced, and upon the election of the seaman or his surviving dependent or beneficiary, or his legal representative to do so shall be governed, as if this section had been in effect when such claim, right, or cause of action accrued, such election to be made in accordance with rules and regulations

prescribed by the Administrator, War Shipping Administration.

#### SOCIAL SECURITY RIGHTS

Rights of any seaman under the Social Security Act, as amended by subsection (b) (2) and (3), and claims therefor shall be governed solely by the provisions of such Act, so amended.

DEFINITION—"ADMINISTRATIVELY DISALLOWED"—  
"W. S. A."—"SEAMAN"

When used in this subsection the term "administratively disallowed" means a denial of a written claim in accordance with rules or regulations prescribed by the Administrator, War Shipping Administration. When used in this subsection the terms "War Shipping Administration" and "Administrator, War Shipping Administration" shall be deemed to include the United States Maritime Commission with respect to the period beginning October 1, 1941, and ending February 11, 1942, and the term "seaman" shall be deemed to include any seaman employed as an employee of the United States through the War Shipping Administration on vessels made available to or sub-chartered to other agencies or departments of the United States.

The language of the Act thus makes it absolutely clear that the Congress did not intend to grant new rights or impose new liabilities against the Government's agents or alter in the slightest any rights seamen might already have against them. The contemplation of Congress was that agents were to continue

to be liable for their own torts and contracts but not for those of the United States exactly as established by *Brady*. Nowhere, we submit, is there the slightest indication that the language of the Act by inadvertence had defeated the congressional purpose of withholding jury trial and had instead given War Shipping Administration seamen a right to recover by suit against the Government's agents at law in the state or federal courts. Neither is there any indication of an intent to restrict any rights the seamen might have against the Government's agents for their own torts by virtue of the rules laid down in the *Brady* case.

It is clear that the sole intended effect of the Clarification Act was to remove all impediments to War Shipping Administration seamen's asserting their rights against the United States under the Jones Act and preserving their rights under the Social Security Acts. In return the Act discontinued their rights under the U. S. Employees' Compensation and Civil Service Retirement Acts, saving, however, such claims and clauses of action as had theretofore accrued under those acts. We submit, therefore, that the Clarification Act has no bearing on the present case.

#### CONCLUSION

Appellant Watson is deprived of no substantial right by being required to vindicate his claims by suit against the United States, the operating owner of his vessel, rather than against the agent appointed by the Government to manage and conduct the accounting and certain other shoreside business operations of the

vessel. The problem presented by this case has been given exceedingly careful consideration by the Supreme Court in *Caldarola v. Eckert*, by this Court in *Lubinski v. Alaska S. S. Co.* and by the Second Circuit in *Shilman v. United States* and we respectfully submit that those decisions should be followed and this Court should order the dismissal of appellant Watson's suit.

H. G. MORISON,  
*Assistant Attorney General,*

LEAVENWORTH COLBY,  
 KEITH R. FERGUSON,

*Special Assistants to the Attorney General,*  
*Admiralty and Shipping Section,*  
*Department of Justice.*

APRIL 1948.

## APPENDIX A

### STATUTES AND REGULATIONS INVOLVED

1. The Jones Act of June 5, 1920, c. 250, s. 33, 41 Stat. 1007 (46 U. S. C. 688), provides in pertinent part:

Any seaman who shall suffer personal injury in the course of his employment may, at his election, maintain an action for damages at law, with the right of trial by jury, and in such action all statutes of the United States modifying or extending the common-law right or remedy in cases of personal injury to railway employees shall apply; \* \* \*

2. The Employers' Liability Act of April 22, 1908, c. 149 s. 1, 35 Stat. 1404 (45 U. S. C. 51), provides in pertinent part:

Every common carrier by railroad \* \* \* shall be liable in damages to any person suffering injury while he is employed by such carrier \* \* \* for such injury or death resulting in whole or in part from the negligence of any of the officers, agents, or employees of such carrier, or by reason of any defect or insufficiency due to its negligence in its \* \* \* boats, wharves, or other equipment.

3. Revised Statute 1753 (5 U. S. C. 631), authorizing the President to prescribe regulations regarding civil service employment, provides:

The President is authorized to prescribe such regulations for the admission of persons into the civil service of the United States as may best promote the efficiency thereof, and ascertain the fitness of each candidate in respect to age, health, character, knowledge, and ability for the branch of service into which he seeks to enter; and for this purpose he may employ suitable persons to conduct such inquiries, and may prescribe their du-



ties, and establish regulations for the conduct of persons who may receive appointments in the civil service.

4. The Civil Service Rules and Schedules, as codified in Title 5, Code of Federal Regulations (1943 Cum. Supp. pp. 1441, 1488), provide in pertinent part as follows:

#### CIVIL SERVICE RULE II

SECTION 2.1 *Extent of the classified service.*—The classified service shall include all persons who have been heretofore or may hereafter be given a competitive status in the classified civil service with or without competitive examination, by legislative enactment, or under the civil service rules promulgated by the President, or by Executive orders covering groups of employees with their positions into the competitive classified service or authorizing the appointment of individuals to positions within such service. It shall include all positions now existing or hereafter-created by legislative or Executive action, of whatever function or designation, whether compensated by a fixed salary or otherwise, unless excepted from classification by specific affirmative legislative or Executive action. No right of classification shall accrue to persons whose appointment or assignment to classified duties is in violation of the civil service rules. [E. O. 7915, June 24, 1938, effective Feb. 1, 1939; 3 F. R. 1519.]

SECTION 2.3. *Exceptions from classification.*—(a) Positions in Parts 50 and 51 are excepted from the classified service.

(b) Appointments to the excepted positions named in Part 50 may be made without examination or upon noncompetitive examination. [E. O. 7915, June 24, 1938, effective Feb. 1, 1939, as amended by E. O. 8083, Apr. 10, 1939, effective May 1, 1939; 3 F. R. 1519, 4 F. R. 1577.]

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SECTION 50.0. *Certain positions excepted from examination under § 2.3.*—The positions designated in this

part are excepted from examination, but not more than one position shall be treated as excepted under any title unless a different number of positions be indicated (Rule XVI, sec. 1, E. O. 209, Mar. 20, 1903, 5 C. F. R. 16.1) [Regs. CSC, as of June 1, 1938].

\* \* \* \* \*

§ 50.21. *United States Maritime Commission*.—(a) All positions on Government-owned ships operated by the United States Maritime Commission [E. O. 9004, Dec. 30, 1941; 7 F. R. 2].

NOTE: These positions were transferred to the War Shipping Administration by E. O. 9054; 7 F. R. 837.

## APPENDIX B

### THE LETTER OF THE GENERAL COUNSEL, UNITED STATES MARITIME COMMISSION, IN REPLY TO THE ENQUIRIES OF THE SUPREME COURT OF THE UNITED STATES

UNITED STATES MARITIME COMMISSION,  
*Washington, April 28, 1947.*

Honorable JOHN F. SONNETT,  
*Assistant Attorney General,*  
*Department of Justice, Washington 25, D. C.*

SIR: This has reference to the request of your Department in connection with the case of *Caldarola v. Moore-McCormack Lines, Inc., et al.*, that the Maritime Commission as successor to the United States Shipping Board and the War Shipping Administration, supply additional information for the use of the Supreme Court. It appears that you desire to be informed why the War Shipping Administration, instead of entering into managing-operator agreements, such as had been used by the Shipping Board and the Maritime Commission from the close of wartime government operation in 1920 until the final sale of the Government's merchant fleet in 1940, decided to adopt service agreements whereby it employed existing steamship companies as its agents to conduct the business of the vessels. You also request an explanation of the differences between the standard form service agreement GAA 4-4-42 adopted by the War Shipping Administration and the former managing-operator agreements, together with a statement as to the manner in which the vessels were operated and serviced under the various integrated contracts of the War Shipping Administration.

#### CONGRESS AUTHORIZED DIRECT GOVERNMENT OPERATION

It must be understood at the outset that direct government operation of the government merchant fleet was believed indispensable to the war effort in both World Wars. It was ac-

cordingly specifically authorized by the Congress and the arrangements which were made for direct government operation with the assistance of experienced steamship companies as ships' husbands for the servicing of the vessels and as berth agents for the handling of port services arising out of their operations on the various routes were deliberately chosen from that point of view. As is evident from a comparison of the new standard form agreements, this type of operation constituted a significant change from the method of operating government vessels which had been in force from January 1920 until the sale of the last of the government lines in May 1940, and marked a return to the direct government operation of World War I.

The effect of the old peacetime operation, particularly subsequent to 1929, is best summarized by the Shipping Board in its Annual Report for 1929. There, in explaining the purpose of the operating agreement which it had adopted, the Board stated (p. 95):

By this plan, the operator assumes complete physical and financial control of the operations of the line, and the Merchant Fleet Corporation confines its activities to periodic inspections covering the maintenance of service in accordance with the contract and the physical condition of the ships. For the services of the operator in maintaining the line, a lump-sum amount is paid, the amount to be determined for each line by analysis of recent operating results. This form of agreement places the managing operator upon as nearly a privately owned operating basis as is practical and should pave the way for the eventual sale of the lines.

This referred to what was ultimately known as the "Lump Sum Operating Agreement, 1930" which was considered in the reports of the Black Committee (S. Rep. 898, 74th Cong., 1st Sess.) and the Comptroller General (H. Doc. 217, 72d Cong., 1st Sess.). Its text is printed in full in Smith and Betters, U. S. Shipping Board, its history, activities, and organization, pp. 293-302. Earlier forms are printed in S. Doc. 38, 67th Cong., 1st Sess., pp. 60-65.

The normal peacetime scheme of operation which, following the Black report, Congress directed in the Merchant Marine Act, 1936, required the Commission to arrange for the charter of the government-owned merchant fleet by private steamship companies. Section 704 (46 U. S. C. 1194) provided:

All vessels transferred to or otherwise acquired by the Commission in any manner may be chartered or sold by the Commission pursuant to the further provisions of this Act. All vessels transferred to the Commission by this Act and now being operated by private operators on lines in foreign commerce of the United States shall be temporarily operated by the Commission for its account by private operators until such time and upon such operating agreements as the Commission may deem advantageous, but the Commission shall arrange as soon as practicable to offer all such lines of vessels for charter as hereinafter provided, preference to be given to present operators, and all operations of the Commission's operation by private operators shall be under such operating agreements discontinued within one year after the passage of this Act.

But in order to assure operation of lines which the Commission might deem essential, but for which it might be impossible to find private operators willing to assume the financial risk of operation under bareboat charter, Congress provided in Section 707, as amended (46 U. S. C. 1197), that the Commission itself might operate such lines through private operators under such operating agreements as the Commission might find advantageous. It was under exceptional arrangements of the character that the special operating agreements with the Roosevelt, Southgate-Nelson and two other operating companies were continued by the Commission until final sale of the government lines in 1940. And it was these special agreements which were involved in the cases of *Brady v. Roosevelt S. S. Co.*, 317 U. S. 575, and *Quinn v. Southgate-Nelson Co.*, 121 F. 2d 190, cert. den. 314 U. S. 682. The text of the special Roose-



vult agreement is printed in full in the Brady record October Term 1942, No. 269, pp. 21-32.

In order to meet potential war conditions, Congress, by the Act of August 7, 1939, c. 555, 53 Stat. 1255 (46 U. S. C. 1242 (e)), amended the Merchant Marine Act and conferred special powers upon the Commission with respect to vessels requisitioned or purchased in case of national emergency. In particular Congress authorized the Commission "to repair, recondition, reconstruct, *and operate*, or charter for operation, any vessels acquired" under such authority. By Section 4 of the Act of June 6, 1941, c. 174, 55 Stat. 244 (50 Appx. U. S. C. 1274), Congress further recognized the developing national emergency and expressly directed that any vessels acquired or made available to the Commission might be "operated by the Commission upon such terms and conditions as it may deem desirable and in the public interest, giving primary consideration to the needs of national defense." Finally, following the outbreak of hostilities, President Roosevelt by Executive Order 9054 of February 7, 1942 (3 C. F. R. 1943 Cum. Supp. 1086), issued pursuant to the First War Powers Act of December 18, 1941, c. 593, 55 Stat. 838 (50 Appx. U. S. C. 601), established the War Shipping Administration under the direction of an Administrator, Paragraph 2 of that order directed the Administrator to control the "operation, purchase, charter, requisition, and use of all ocean vessels under the flag or control of the United States" with the exception of vessels under the control of the military or naval authorities. By paragraph 3 it also transferred to the Administrator all duties and authority with respect to the operation of vessels which had previously been conferred by law upon the Maritime Commission.

#### PURPOSE OF DIRECT GOVERNMENT OPERATION

The mandate for wartime operation thus granted the War Shipping Administration was entirely different from the peacetime functions of the Shipping Board and the Maritime Commission as directed by earlier legislation culminating in the Merchant Marine Act, 1936, and carried out by means of the operating agreement employed from 1920 to 1940. On the contrary, the type of operation authorized was analogous to the



direct government operation followed during World War I by the Shipping Control Committee of the Shipping Board with the aid of the Division of Operations of the Fleet Corporation. Then President Wilson, by Executive Order 2664 of July 11, 1917, issued pursuant to the emergency provisions of the Act of June 15, 1917, c. 29, 40 Stat. 182, had conferred similar authority upon the Shipping Board to assume "the operation, management, and disposition" of all vessels acquired by the United States. The Board, in its turn, by resolution of February 11, 1918 (H. Rept. 1399, 66th Cong., 3d Sess., p. 32), had created the Shipping Control Committee "empowered to manage, control, distribute, and allocate all tonnage now subject or which hereafter may become subject to the control of the United States Shipping Board by ownership, charter, or otherwise." And the direct governmental wartime operation that followed is now history (see Crowell and Wilson, *Road to France*, pp. 377-378; Smith and Betters, *U. S. Shipping Board, its history, activities, and organizations*, pp. 24-25, 29-30).

It should be common knowledge that the basic reason for the War Shipping Administration following a plan of operations whereby it manned and navigated the Government's vessels was the conviction that it was essential to the conduct of the war to make the navigation and physical management of the vessels afloat an exclusively government operation. But equally it was desirable to take advantage of the existing contracts and experienced personnel of steamship companies for servicing the shoreside needs and administrative affairs of the vessels and obtain the benefit of their existing agreements with the maritime unions for procuring masters and crews. From a review of the War Shipping Administration files it would seem that the following points were deemed particularly essential:

1. Insure immunity from foreign and local inspection, regulation, and taxation for the vessels and their operation.
2. Retain direct control of the routing, navigation, and physical management of the vessels and of their masters and crews but not necessarily of their procurement for employment.
3. Provide a mechanism for direct control of fueling, supply-

ing, repairing, and similar services, and for immunity from foreign and local regulation and taxation of such activities.

These points could be best attained only by direct government operation. Operation of the vessels by independent contractors would not fulfill the requirements.

When War Shipping Administration assumed this task of operating the Government's merchant fleet, the then existing scheme of the government was to bareboat charter vessels to private operators. The onset of war led to a general program of requisition and to acquisition of a vast number of vessels of all types through purchases and the stepping up of our construction program. The problem presented under these new conditions was how to carry out the mandate granted by Executive Order 9054 "to control the operation \* \* \* and use of all ocean vessels" as a coordinated major governmental program while at the same time taking advantage of the existing organizations in the various ports which the steamship lines had created. Efficient wartime operation required speed and secrecy. It was indispensable to escape the detailed inspections, reports and accounting which foreign, and to some extent local, governments impose on private-vessel operation in aid of their police, regulation and taxation powers. Only direct government operation would support the claim of sovereign immunity and permit escape from such delays and publicity. But efficient operation just as obviously dictated a policy of full utilization of the technical skill and facilities of shipping organizations, which had been painstakingly encouraged by the Commission's aid over a long period of years, precisely in order that they might be utilized by the public in just this type of emergency. Such organizations, developed in peacetime by private shipping companies, consist of highly skilled personnel trained to work smoothly and closely together. Their technical personnel have complete familiarity with the terminals, connecting carriers, loading and unloading conditions, as affected by port, seat and weather conditions, and with all other problems inherent in overseas transport in the various trades. They are familiar as a team with the various techniques and skills of such shoreside matters as towage, wharfage and stevedoring practices, maintenance and voyage repairs and countless

other minor port operating details which, unless efficiently handled, result in substantial loss of time, money and ship space. Such organizations also have access to a supply of ship and shore personnel as a result of their union agreements and other connections. It was obvious that the only workable solution was a twofold division of duties: the navigation and physical management of the vessels afloat was to be carried out by shipmasters acting directly as agents or employees of the United States and in exclusive control of their vessels and crew; the port services, the husbanding of the vessels and the details of shoreside administration were to be carried out by existing shipping companies acting not as independent contractors but solely as agents for the United States.

The nature of such agency arrangements was especially important in connection with foreign taxation and regulation. For example, not even an act of Congress might have been sufficient to preserve immunity of the vessels if the general agents were made independent contractors and placed in possession of the vessels. Cf. *Mexico v. Hoffman*, 324 U. S. 30, 37. As Admiral Land stated in a circular instruction of June 10, 1942, addressed to all agents and general agents with respect to tax immunity:

When the forms of Service Agreements (GAA and TCA) were drafted, and later when they were approved by me for use as standard forms, it was contemplated that Agents and General Agents who executed them would act as agents for the United States, and not as independent contractors, in conducting the business of the vessels allocated to them (see Articles 1 and 2). It was also contemplated that, since the agents were authorized to make purchases necessary to the maintenance, management, and operation or conduct of the business of the vessels, the purchases would be made in the name of the United States as principal, that title to the goods purchased would vest in the United States, and that the United States, and not the Agent, would be obligated to pay the purchase price and its credit would be pledged therefor.

See also previous circular instructions, dated May 19, 1942, by the Director of Fiscal Affairs.

Of all the various aspects covered by the discussions that attended the drafting of the service agreements necessary to carry out the plan for wartime operations, the question of whether the crews were to be employees of the United States or of the general agent received most particular attention. Aside from the propriety of a Government agency, as employer, negotiating directly with labor unions or entering into collective-bargaining agreements, the practical difficulties of so doing were almost insuperable due to the large number of labor organizations and the consequent variations as to wages, working conditions, and other matters which existed in the maritime industry as a result of a long history under private operation. It was recognized that, for at least the early years of the war, the requisitioned vessels would represent a vast majority of those under government control and the transition from private to direct government operation could be best achieved only by arrangements which provided for a minimum disturbance of existing collective-bargaining relationships. On the other hand, there was no doubt that as the general agents would not be owners nor bareboat charterers of the vessels they could not claim the benefit of the limitation of liability acts (46 U. S. C. 181 *et seq.*) as the law then stood. Compare Section 4 of the War Shipping Administration (Clarification) Act (50 Appx. U. S. C. 1924), extending the benefits of the acts. General agents, while willing to assist in procurement, were reluctant to accept the unlimited liability which would result from the masters and crews being their agents or employees. Moreover it was believed that crews would have greater sense of responsibility and would be more likely to refrain from strikes and other work stoppages if they were employees of the United States. Finally, only if the masters and crews were government employees could the United States be certain of its right to invoke sovereign immunity aboard and to insist at home that all litigation involving the navigation and management of the vessel should be in the admiralty courts where necessary wartime secrecy could be preserved.

Ultimately a plan was developed similar to that stated in Section 79, comment a, of the Restatement of Agency. It was determined that the general agent, acting as agent for the



Government, should procure masters and crews to man the vessels. It was to be expressly provided that they should be procured pursuant to the applicable union agreements and in accordance with customary commercial practices. It would thus be possible to retain the advantage of existing union agreements without sacrificing the advantages arising out of the status of the masters and crews as government employees subject to the exclusive control of the United States.

#### 1942 FORMS OF AGENCY AGREEMENTS

Pursuant to the plan thus evolved, the War Shipping Administrator adopted forms of service agreements whereby existing steamship companies were appointed general agents to husband vessels to be assigned to them and operators of existing steamship lines were appointed berth agents to handle the cargo activities and other port services required by vessels assigned to the routes established. These service agreements were promulgated by the Administrator in General Order No. 21 of September 22, 1942 (7 Fed. Reg. 7561), and its supplements. An examination of the texts of the two agreements and a consideration of the complementary functions which they assign to the general agent and berth agent in attending to the service of the vessel on shore shows conclusively that neither agent is in control of the vessel but that the United States alone, as the principal both of the vessel's master and of the general agent and berth agent has full control.

The general agency agreement, form GAA, 4-4-42, in effect at the time Caldarola was injured (printed in Document 4, Plaintiff's Exhibit 7, pp. 326-336), provided in pertinent part as follows:

ARTICLE 1. The United States appoints the General Agent *as its agent and not as an independent contractor, to manage and conduct the business of vessels assigned to it by the United States from time to time.*

ARTICLE 2. The General Agent accepts the appointment and undertakes and promises *so to manage and conduct the business for the United States, in accordance with such directions, orders, or regulations as the*

*latter has prescribed, or from time to time may prescribe. \* \* \**

ARTICLE 3A. To the best of its ability, the General Agent shall *for the account of the United States:*

(a) Maintain the vessels in such trade or service *as the United States may direct;*

(b) Collect all moneys due the United States \* \* \* and account to the United States for all moneys collected or disbursed \* \* \*;

(c) Equip, victual, supply, and maintain the vessels, subject to such directions, orders \* \* \* and inspection *as the United States may from time to time prescribe;*

(d) \* \* \* The Master *shall be an agent and employee of the United States and shall have and exercise full control, responsibility and authority with respect to the navigation and management of the vessel. The General Agent shall procure and make available to the Master for engagement by him the officers and men required by him to fill the complement of the vessel* \* \* \* *The Officers and members of the crew shall be subject only to the orders of the Master. All such persons shall be paid in the customary manner with funds provided by the United States hereunder.*

It was contemplated by the berth agency agreement, form BA 12-29-43, in effect at the time Caldarola was injured (*ibid.*, pp. 367-374), which provided in pertinent part as follows:

ARTICLE 1. The United States appoints the Berth Agent *as its agent and not as an independent contractor, to conduct the business of vessels assigned to it by the United States from time to time.*

ARTICLE 2. The Berth Agent accepts the appointment and undertakes and promises *so to conduct the business for the United States, in accordance with such directions, orders, or regulations as the United States has prescribed, or from time to time may prescribe. \* \* \**

ARTICLE 3A. Unless otherwise directed by the United



States, the Berth Agent, in all cases, shall, to the best of its ability, for the account of the United States:

(a) Perform all of the customary duties of an agent in conducting the business of the vessels subject to this Agreement, subject to the orders of the United States *as to voyages, cargoes, priorities of cargoes, charters, rates of freight and other charges and as to all matters connected with the use of the vessels;* \* \* \*

(b) Collect all moneys due the United States under this Agreement and deposit, remit, or disburse the same in accordance with such regulations as the United States may prescribe from time to time, and account to the United States \* \* \*;

(c) *Provide and pay for all fuel, fresh water, stevedoring and other cargo-handling expense, port charges, wharfage and dockage, pilotages, agencies, canal dues, commissions, and consular charges, except those pertaining to the Master, officers, and crew.* \* \* \*  
 Provided, That, where the United States has entered into agreements for any of the foregoing items (such as for stevedoring and supplying fuel), the Berth Agent shall see that the items are furnished pursuant to the provisions of such agreements and shall make the necessary arrangements with the District Manager, or other representative of the United States therefor;

(d) *Issue or cause to be issued to shippers customary freight contracts and bills of lading in the form prescribed by the United States,* and prepare manifests and other documents. Where appropriate, issue or cause to be issued to passengers customary passenger tickets in the form prescribed by the United States.

In view of the fact that as to some of the vessels the same person might act both as general agent and as berth agent and the fact that vessels at times would be in ports where it would be necessary for the berth agent to perform the duties of husbanding the vessel, a certain overlapping of duties and powers was necessarily provided for. However, none of these powers infringed upon the absolute control of the United States, through

the master over the navigation and physical management of the vessel. No conflicts could arise from this overlapping of duties between the general agent and the berth agent because they were avoided or resolved in practice by specific orders of their common principal, the United States. The clear line of authority vested in the master from the United States as contrasted with the overlapping duties of general agents and berth agents indicates clearly that the master was directly responsible to the United States and not to the general agent or berth agent.

#### DIFFERENCE FROM COST-PLUS CONTRACTOR AGREEMENT

Analysis of the differences between the general agency agreement, on the one hand, and the agreements which turned the vessels over to private contractors for operation, on the other, confirms that the control of the navigation and physical management of the Government's vessels, as distinct from services in attending to their business onshore, was in the United States and that the general agent no more than the berth agent was permitted to have any control over the navigation and physical management of the vessels. As typical of the latter group of contracts we may take that with the Roosevelt Steamship Company, which was before the court in the *Brady* case, and the "Lump Sum Operating Agreement, 1930," which was before the Black Committee in 1935. As indicated above, the texts of both are readily available to the Court.

Article 1 of the general agency agreement expressly states that the Government appoints the general agent "as its agent and not as an independent contractor," to "manage and conduct the business of the vessel." On the contrary, paragraph 1 of the Special Roosevelt agreement provides that the "managing agent" is appointed "to manage, *operate*, and conduct the business of the line"; and paragraph 3 states that the vessels are allocated "for management and *operation*." The 1930 agreement employed a similar form and in addition to paragraph 14 provides that the "managing operator" shall "assume control" of "the management and operation of the vessels." Significantly, such provisions are carefully excluded from the general agency agreement.

Article 3A (a) of the general agreement provides that the general agent shall maintain the vessels in such trade as the United States may direct. The Government is thus entirely free to issue and did issue detailed orders concerning routes, voyages, cargoes, rates of freight, and all similar matters. The special Roosevelt agreement, on the other hand, within the limitations of paragraphs 4 and 5, concerning the number of sailings on the precise trade routes specified and the necessity for contracting in the trade name of the line, leaves the entire operation to the contractor's discretion. Paragraph 5 of the 1930 agreement is similar in effect. Both leave the times and conditions of the sailings entirely to the discretion of the operator.

Article 3A (c) of the general agency agreement requires the general agent to "equip, victual, supply, and maintain the vessels" as directed by the United States and 3A (d) requires the general agent to procure the master and crew. But it is provided that, once procured, the master "*shall be an agent and employee of the United States* and shall have and exercise full control, responsibility, and authority with respect to the navigation and management of the vessel" and that "the officers and members of the crew shall be subject only to the orders of the master." Finally it directs that they shall be paid with funds provided by the United States. No corresponding language exists in the old agreements. Paragraph 7 of the Roosevelt agreement requires the managing agent to "*man, equip, victual, supply, and operate* the vessels." Paragraph 8 of the 1930 agreement provides, "The Managing Operator shall, *at his own expense, man, operate, victual, navigate, fuel, and supply* the vessels, and shall pay all port charges, pilotage, taxes, and all other costs and expenses. The only restriction upon the operator in the old forms is that the licensed officers and chief steward are to be subject to the Government's approval.

Article 8 of the general agency agreement states that the United States will provide insurance against all insurable risks including marine, war and protection and indemnity risks, "which insurance shall include the general agent and the vessel personnel as assureds." Paragraph 14 of the special Roosevelt agreement and paragraph 20 of the 1930 agreement, on the

other hand, required the Government to provide all marine insurance, but required the operator to provide all protection and indemnity and similar form of insurance which the Government may deem necessary. Protection and indemnity insurance covers the vessel's liability for personal injury to crew members and others and for damage to cargo. The function of providing it is ordinarily placed upon the party responsible for the navigation and management of the vessel. The retention in the United States, by the general agency agreement, of the function of providing protection and indemnity insurance is significant as showing that the navigation and physical management of the vessel is completely divorced from the functions of the general agent in husbanding the vessel and attending to its shoreside activities.

Article 14 of the general agency agreement provides that, unless otherwise instructed and "subject to such regulations, instructions, or methods of supervision and inspection as may be required or prescribed by the United States," the general agent shall "arrange for the repair of the vessels" and cooperate with representatives of the United States in making any inspections or investigations that the United States may deem desirable. Article 3A (c) imposes a general duty of maintenance. Paragraph 11 of the special Roosevelt agreement similarly requires the managing agent to "exercise reasonable care and diligence to maintain the vessel." But paragraph 12 of the Roosevelt agreement further provides that the Government shall have the right "to survey any of the vessels operated by the managing agent hereunder to satisfy itself that they are being properly maintained" and requires the managing agent "to give such representatives as the owner may designate from time to time full, free and complete access at all reasonable times to all parts of the vessels. Paragraph 9 of the 1930 agreement provides that "The Managing Operator shall, at its own expense \* \* \* keep said vessels \* \* \* in substantially the same condition as when delivered," and paragraph 5 reserves the right for the Government to survey the vessels at any time. Such provisions for access to the vessels, although essential in the earlier agreements when the United States was not in possession of the vessels, were obviously un-



necessary in the 1942 general agency agreement since the master "as agent and employee of the United States," exercising full control "with respect to the navigation and management of the vessel," would hold possession of the vessel for the United States and subject to its access at all times.

The financial arrangements for the vessels also tend to confirm that under the general agency agreement the vessels are in the exclusive control of the Government. The Lump Sum Operating Agreement, 1930, provides that the managing operator shall pay all expenses of operation and in paragraph 18 states that he "agrees to assume for his own account all losses incurred in the operation" and that any profits shall be his property. The Operator's compensation is fixed by paragraph 21 at a lump sum for each voyage. The Roosevelt agreement, on the other hand, provides in paragraphs 6, 7, and 19 for an ordinary cost-plus-fixed-fee type of operation. Article 7 of the general agency agreement, by contrast, not only requires the United States to reimburse the general agent "for all expenditures of every kind made by it in performing, procuring or supplying the services, facilities, stores, supplies or equipment as required hereunder," but, moreover, provides that the United States may advance moneys "to provide for disbursements hereunder in accordance with such regulations" as it shall prescribe. In fact, in accordance with the practice codified in Fiscal Regulation No. 6 (Revised), January 1, 1944, all expenses are paid directly from funds of the United States placed in special deposit accounts provided for in the forms found at pp. 386-394 of Document 4 (Plaintiff's Exhibit 7). As compensation, Article 5 of the general agency agreement allows "such fair and reasonable amount" as the Administrator shall from time to time determine. At the time Caldarola was injured compensation was fixed by War Shipping Administration General Order No. 34, December 31, 1943 (9 Fed. Reg. 1059). The basic amount totaled \$80 per day per vessel for husbanding and accounting services. General agents and berth agents performing berth or port services are also compensated by certain amounts measured by the cargo and passengers loaded or unloaded. All compensation is subject to recapture or renegotiation to the extent found to be excessive Under both

the Roosevelt agreement and the general agency agreement the losses and profits of the operators fall upon the United States. The general agency agreement, however, differs in that the agent is no longer, as in the old forms, an independent contractor, "managing agent" or "managing operator." The general agent is restricted to being a ship's husband acting merely as an agent and under detailed government control.

#### OPERATION UNDER THE 1942 AGREEMENTS

It is obvious from the foregoing analysis that general agents and berth agents in the operation of War Shipping Administration vessels are mere agents limited to the performance of shore side or nonnavigating functions under general supervision and are not allowed the board discretion exercised by independent contractors in control or possession of the vessels. The general agency and berth agency agreements alike made every action of agents subject to "such directions, orders or regulations" as the Government should prescribe. And in fact the various activities of the agents were subjected to control through the medium of general orders, operations regulations, traffic regulations, fiscal regulations, legal bulletins, auditing and accounting instructions, insurance instructions and medical directives and through supervision by the War Shipping Administration with the aid of some 5,000 employees located in the principal ports, as well as at Washington. The discretion of agents is particularly circumscribed by three practices followed by the War Shipping Administration in operating the Government's merchant fleet: (1) The appointment of both general agents to render husbanding services and berth agents to render port services to the vessels, (2) the Government's execution of master contracts for the principal services and supplies needed for the vessels, and (3) the requirement of Article 3A (d) that the master be an agent of the United States and not of the general agent and the crew subject only to the orders of the master. Such practices are, of course, entirely foreign to operation by independent contractors, as well as to private peacetime operation, for in those the independent contractor or private operator enjoys unlimited discretion in the sources and methods of services and supply.



The restrictions resulting from the combined use of berth agents and general agents are many and War Shipping Administration operations bear little resemblance to peacetime operations. Succinctly stated, just as general agents are charged with the function of arranging for maintaining and supplying the vessels for the account of the United States, so berth agents are charged with the correlative function of arranging for the account of the United States the port services required at each end of the route. The general agent "husbands" the vessel, consisting principally of victualing, supplying, maintaining and repairing, while the berth agent performs "port services," consisting principally of arranging for the handling and loading of cargo. At foreign ports, moreover, the berth agent, in addition to the cargo services, arranges for all husbanding services required.

Berth agents were generally chosen for routes over which they had previously operated vessels during peacetime and had developed organizations familiar with the local problems peculiar to such routes and the conditions of loading and discharge at their ports. They were appointed on the basis of their special competence for handling special routes. General agents were appointed on the basis of their experience in husbanding vessels. Many companies acted both as general agents and as berth agents but their functions only coincided where vessels assigned to them as general agents were operated over routes assigned to them as berth agents. The delineation of the duties of general agents and berth agents is fully set forth in War Shipping Administration Operations Regulation No. 84,<sup>1</sup> but may be conveniently illustrated by an example. Thus assume that the A Steamship Company was designated general agent of the United States to husband a vessel, *S. S. Eks*. At the same time it was designated as berth agent of the United States for the New York to United Kingdom route over which it had been a peacetime operator. Thereafter the A Company would act as berth agent for any vessels, no matter what general agent might husband them, which operated on its route—both while the vessels were at New

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<sup>1</sup> The text of Operations Regulation No. 84, referred to, was attached and is printed *infra*, pp. A-26 *et seq.*

York and when they arrived in the United Kingdom. And it would do so again on their return to New York if the representative of the War Shipping Administration in the United Kingdom who had charge of rerouting directed the vessels to return to New York. When the *Eks* operated on that route, A Company, as general agent, would therefore render berth agency services to it without special designation as berth agent. Now assume the B Steamship Company was designated as berth agent for a route from the Gulf of Mexico to the United Kingdom. When the *Eks* was assigned to make a voyage to the United Kingdom from a port in the Gulf of Mexico, the B Company, the regular berth agent for that route, and not the A Company, the ship's husband, would act as berth agent for the vessel both in the Gulf of Mexico and on its arrival in the United Kingdom. And this even though the A Company, the general agent for the *Eks*, was acting as berth agent for the same port in the United Kingdom for vessels on its New York-United Kingdom route. In other words, although a general agent is acting as berth agent in the United Kingdom for vessels from United States North Atlantic ports, it will not act as berth agent for vessels arriving from a United States Gulf port even though the vessels should be among those assigned to it as general agent. Conversely, the B Company, acting as berth agent for the Gulf of Mexico-United Kingdom route, and not the A Company, the general agent, would perform the duties of husbanding the *Eks* in the United Kingdom.

The powers of general agents and berth agents were alike restricted when vessels entered the immediate war zone areas. In those cases the Government performed all such services either by the military authorities or by the War Shipping Administration's own foreign service representatives. (Organized under War Shipping Administration Administrative Order 2, Supplement 4, September 26, 1942, and 4A (Revised), see also Administrative Order 52, December 3, 1943.) At the height of operations, War Shipping Administration maintained a staff of 675 employees located in almost every foreign port in the world in which its vessels were operating. Operating regions, headed by a Regional Director reporting directly to the War Shipping Administrator, were set up to cover all foreign areas.

Port Representatives, port engineers, and, in some cases, supplemental administrative and legal personnel were assigned at important ports in such areas to carry out the functions of the War Shipping Administration. Foreign service personnel was transferred from port to port as the war theatres changed and new fronts became active. Even at present, in Japan and Korea, no American steamship companies have been permitted to operate. The business of Government merchant vessels operating in those areas is still handled exclusively by the foreign service representatives of the Maritime Commission as successor to the War Shipping Administration, operating through the military authorities.

General agents were further restricted in the extent of their authority by the action of the Government in entering into master contracts for the procurement of various services and supplies required by general agents and berth agents for husbanding the vessels and affording them port services. Thus, master contracts for repairing, terminal operation, stevedoring, bunkering, and food stockpiling were entered into by the Government. (See pp. 408-583 of Document 4, Plaintiff's Exhibit 7.) All repairs to vessels under general agency agreements were performed under one of several types of repair contracts (pp. 408-496), which included both master contracts for principal repairs and special contract forms to be used by agents in contracting in the name of the United States for isolated repairs when repair contractors under master contracts were not available. Eventually, all oil bunkers and Diesel fuels supplied were delivered to the master of the vessel pursuant to orders placed by the general agent on his requisition under contracts designated Warshipfuel and Warshipdiesel (pp. 550-554). A contract designated Warshipfood (pp. 556-564) was also prepared and executed in various ports to assure adequate supplies of scarce foods for vessels. Similar arrangements were made in respect of towage services in various ports (Operations Regulation 27 and supplements).

Even in the absence of master contracts, the War Shipping Administration instructed agents in many respects as to the terms of the contracts they were authorized to make. In accordance with the agency agreements, the provisions of Legal

Bulletin No. 1 (September 22, 1942) and General Order No. 42 (9 Fed. Reg. 4110), such contracts for vessel supplies and services were required to be executed in the name of the United States and agents were referred to in that capacity only. It is believed attention should be drawn to the provisions of certain Operations Regulations and their supplements, particularly Nos. 27 (Towage Contracts), 84 (Duties of Berth Agents, General Agents, and Agents), 97 (Bunker Oil Contracts), 99 (Supplemental), and 2 (Pilferage). While some of these regulations were issued subsequent to the date of Caldarola's injury, the procedures codified therein had been established at an earlier date. The close character of the control exercised over general agents and berth agents is further indicated by the duties assigned to the various units of the War Shipping Administration Division of Operations, as indicated in Administrative Order No. 50, together with Supplements 1, 8, 13, and 17 thereto.

The most significant restriction on general agents is the lack of control over the masters and crews serving on vessels assigned to them which results from the requirement of Article 3A (d) that the master shall be the agent of the United States (not of the general agent), and in the exercise of his duties in the navigation and management, has exclusive control over the vessel and its crew. General agents are thus confined to procuring the crews and serving as the channel of command between the War Shipping Administration and the master. In 1942, at the commencement of War Shipping Administration operations, collective bargaining agreements between the maritime unions and the steamship companies were continued in force in accordance with the so-called Statements of Policy of May 4 and May 12, 1942, signed jointly by representatives of the Administration and the unions (see War Shipping Administration Operations Regulation No. 1). Subsequent changes in wages and working conditions were approved by the War Shipping Administration, and where required, by the War Labor Board, before being placed in effect by the Administration. Moreover, a Division of Maritime Labor Relations was created by Administrative Order 20 of June 10, 1942, for the purpose of



handling labor relations problems arising in the course of operations and insuring the continuance of proper labor relations.

The relationship between the seamen and the vessel is brought home to them in such a way that they can never have any reasonable doubt that they were serving on United States owned and operated vessels. The articles of employment signed by the seaman designate the United States as the owner of the vessel and the general agent as its agent. Thereafter he is directly supervised and controlled by the master throughout the entire course of the voyage. A certificate of ownership as well as copy of the articles is conspicuously posted on board and seamen are thus constantly aware that they are serving on a vessel owned and operated by the United States. Upon termination of the voyage wages are paid to members of the crew by the master in the presence of a Shipping Commissioner. Funds for the purpose are made available to the general agent by the Administration through deposit in the special joint bank accounts set up in the name of the agent "as general agent for the War Shipping Administration." These procedures inevitably brought home to the seaman his status was that of an employee of the United States.

It is believed that the above explanation of the roles of berth agents and master contracts and the status of masters and crews as employees of the United States shows that in their operations general agents clearly were not authorized to exercise the rights of an owner *pro hac vice* in manning, navigating, and managing the vessels assigned to them. For your further assistance there is submitted with this letter a collection of official documents referred to herein so far as they are not included in Document 4 (Plaintiff's Exhibit 7).

#### CONCLUSION

It is believed that the foregoing explanation conclusively establishes the purpose of the War Shipping Administration in undertaking direct operation of its vessels by masters and crews subject exclusively to its control. The purpose appears to have been threefold: First, to retain for government shipping the right to invoke sovereign immunity from foreign and local inspection, regulation, and taxation; Second, to obtain for gov-

ernment shipping the freedom from strikes or labor stoppages which results from preserving the status of all seamen on War Shipping Administration vessels as government employees; Third, to insure the preservation of indispensable wartime secrecy by confining all litigation which might in any way involve the navigation and physical management of government vessels to the admiralty courts where necessary security measures could be applied. It is believed that the explanation further shows beyond the possibility of doubt that operation under the general agency and berth agency agreements, as carried out by the regulations and master contracts of the War Shipping Administration, was direct government operation, differing in every essential respect from the peacetime contract operations involved in cases such as *Quinn v. Southgate-Nelson Co.* and *Brady v. Roosevelt S. S. Co.*

Respectfully.

(Sgd.) WADE H. SKINNER,  
General Counsel.



## APPENDIX C

### OPERATIONS REGULATIONS No. 84. (REVISED)

#### PERTAINING TO ALL VESSELS OWNED BY OR UNDER CHARTER TO THE WAR SHIPPING ADMINISTRATION

(Dry cargo and passenger vessels)

Subject: *Definition of duties of berth agents, general agents,  
and agents*

Operations Regulation No. 84, dated December 29, 1943, and Supplement No. 1 thereto, dated March 22, 1944, are consolidated and amended to read:

General Order No. 21, Supplement No. 4, prescribes a revised form of service agreement for Berth Agents, which requires the Berth Agent to account directly to the Administration, instead of to the Agent or General Agent with respect to accounts that have not been rendered to the Agent or General Agent, prior to January 1, 1944. Otherwise, the outstanding regulations defining the duties of the Berth Sub-Agents, Agents and General Agents will govern with respect to services rendered, prior to January 1, 1944. Effective January 1, 1944, the duties of the Berth Agent and the Agent or General Agent will be as follows:

(1) Unless otherwise directed by the Administration, the Berth Agent shall in all cases, for the account of the Administration:

(a) Book the cargo and expedite its delivery alongside ship. Issue or cause to be issued to shippers customary freight contracts, and bills of lading in the form prescribed by the Administration, and prepare manifests and other cargo documents. Where appropriate, book passengers and issue or cause to be issued to passengers customary passenger tickets in the form prescribed by the Administration. Handle mails;

(b) Collect all moneys due the United States under the Berth Agency Service Agreement and deposit, remit, or disburse the same in accordance with such regulations as the Administration may prescribe from time to time, and account to the Administration for all moneys collected or disbursed by it or its Agents;

(c) While the vessel is under assignment to the Berth Agent, appoint subagents at foreign and intermediate ports of call for the receipt or delivery of cargo or for orders, and, subject to the provisions of paragraphs (2), (3), and (4) hereof, appoint subagents at domestic ports;

(d) While under his assignment arrange entrance and clearance of vessel at all foreign ports, except as provided in paragraph 6 (a), including entrance at the first port of loading and clearance from the last port of discharge.

(e) Pay agency fees, port charges, and cargo expenses in foreign and domestic ports, including fees and expenses incurred pursuant to paragraph (6) where the Berth Agent has been appointed to act in such matters as the agent of the General Agent or owner, pursuant to paragraph (6) (b);

(f) Adjust and settle cargo claims in accordance with the provisions of Wartime Insurance Instructions No. 1, as amended.

(g) Make all necessary arrangements for the transit of canals, except the Panama Canal as provided for in paragraph (5) (b).

(h) The Berth Agent shall notify the Agent or General Agent in advance of any requirements peculiar to the trade which relate to the duties of the Agent or General Agent such as arrangements for dunnage, slings, fresh water, draft, etc., affecting the projected voyage in the service of the Berth Agent.

(2) Where the Agent or General Agent does not provide its own facilities in the United States port of loading or discharge, and when not otherwise directed or approved by the

Administration, the Berth Agent shall for the account of the Administration:

(a) Receive and deliver the cargo, passengers, and mail; provide and pay for stevedoring and other cargo-handling expenses, port charges, wharfage and dockage, pilotage, commissions, and consular charges (except those pertaining to the master, officers, and crew) and all other expenses in connection with the handling of the cargo, passengers, and mail.

(3) Where the Agent or General Agent provides its own facilities in the United States port of loading or discharging, and when not otherwise directed by the District Director in charge of the port where the services are performed, the Agent or General Agent shall for account of the War Shipping Administration perform the duties provided in paragraph (2) of this regulation, but the Berth Agent shall have the right to employ a Head Receiving or Delivery Clerk to supervise the operation of receiving and delivering cargo.

(4) Where the Agent or General Agent and the Berth Agent both provide their own facilities in the United States port of loading or discharge, the duties provided in paragraph (2) of this regulation shall be performed for the account of the War Shipping Administration as directed by the District Director in charge of the port where the services are performed.

(5) Except as otherwise directed by the Administration, the Agent or General Agent for account of the War Shipping Administration shall, in all cases:

(a) Order and pay for fuel, after consultation with the Berth Agent, and follow such instructions with regard thereto as shall be issued by the Administration from time to time ;

(b) Make all necessary arrangements for transit of the Panama Canal.

(6) Except as otherwise directed by the Administration, the owner or General Agent shall in all cases:

(a) Appoint subagents to handle the vessels' business, such as repairs, restowage of cargo, matters involv-

ing General Average, etc., and where the ship calls for orders between berth agency assignments.

(b) The War Shipping Administration requests that as far as practicable all General Agents use the subagents of the Berth Agents at foreign ports for the handling of the vessels' business, in addition to the cargo activities performed by such subagents for the Berth Agent. It is also deemed desirable that the same procedure be followed with respect to time-chartered vessels and it is requested that Time Charter Agents ask the owners of all vessels time chartered to the Administration to use the subagents of the Berth Agents at foreign ports in similar instances and to authorize the latter to reimburse the subagent for expenses properly incurred for the owner's account.

(c) In every case where, in accordance with paragraph (a) hereof, the foreign subagent of a Berth Agent is used, the Berth Agent hereby is authorized to reimburse the foreign subagent out of War Shipping Administration funds for any husbanding expenses incurred for such vessel which are for account of the War Shipping Administration and when so authorized by the owner in the instance of a time-chartered vessel, for account of such owner. The Berth Agent shall submit to the General Agent or to the owner of the time-chartered vessel, as the case may be, the invoices and other documents covering all such husbanding expenses and shall collect from them the amounts of such expenses. In the event the General Agent, or, in the instance of a time-chartered vessel, the owner has reason to question or disapprove the payment of any particular item, same shall be referred by them to the Berth Agent for adjustment with the subagent. This provision is stipulated because of the General Agent's and owner's over-all responsibility for the husbanding of the vessel, although it is the purpose of this regulation to permit the Berth Agent promptly to reimburse foreign subagents for services rendered.

(7) The Berth Agent shall promptly notify the Agent or General Agent of all known deviations or intended deviations under the terms of the bill of lading or affreightment contract. It shall be the responsibility of the Agent to immediately transmit such notification to the owner of a vessel under time charter. Upon receipt of such information the General Agent or owner shall promptly notify the P. & I. Underwriters pursuant to policy requirements. Such exchanges or notifications shall be made pursuant to applicable provisions of War Shipping Administration security orders and regulations.

(8) All Agents, General Agents, and owners shall attend to matters in connection with Marine casualties and resulting claims in accordance with appropriate instructions issued by the Director, Division of Wartime Insurance.

(Sgd.) G. H. Helmbold,  
G. H. HELMBOLD,

*Assistant Deputy Administrator for Ship Operations.*

No. 11806

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United States  
Circuit Court of Appeals  
For the Ninth Circuit.

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SAFEWAY STORES, INC., a Corporation,  
Appellant,

vs.

WARREN W. DUNNELL,  
Appellee.

---

Transcript of Record

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Upon Appeal from the District Court of the United States  
for the Northern District of California,  
Southern Division





No. 11806

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United States  
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Southern Division

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## INDEX

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

	PAGE
Affidavit of Willard S. Johnston.....	386
Answer and Counterclaim of Defendant Safe- way Stores, Incorporated.....	10
Appeal:	
Appellant's Statement of Points on.....	383
Certificate of Clerk to Transcript of Rec- ord on .....	57
Designation by Defendant and Counter- claimant of Portions of the Record Pro- ceedings and Evidence to Be Contained in the Record on.....	51
Designation of Plaintiff and Counterclaim Defendant of Portions of the Record Proceedings and Evidence to Be Con- tained in the Record on.....	54
Notice of .....	50
Certificate of Clerk to Transcript of Record on Appeal .....	57
Complaint in Equity Under the Trade-Mark Laws to Require the Commissioner of Pat- ents to Register a Trade-Mark.....	2

INDEX	PAGE
<b>Designation by Defendant and Counterclaimant of Portions of the Record Proceedings and Evidence to Be Contained in the Record on Appeal</b> .....	<b>51</b>
<b>Designation of Plaintiff and Counterclaim De- fendant of Portions of the Record Proceed- ings and Evidence to Be Contained in the Record on Appeal</b> .....	<b>54</b>
<b>Exhibits, Plaintiff's:</b>	
No. 1—Patent Application No. 453,099...	187
2—Matter of Opposition No. 23,281...	192
3—Copy of Papers 11 and 16 in the Matter of Opposition No. 23,281.	222
Affidavit of Service by Mail...	263
Deposition of Milton L. Selby.	226
—direct .....	227
—cross .....	253
Index to Opposer's Exhibits..	223
Notice to Produce .....	262
Notice of Taking Testimony .....	258, 260
Proof of Service .....	259
Stipulation for the Taking of Testimony on Behalf of the Above-Named Applicant Stenographically and Tran- scribed Under Patent Office Rule 156 .....	265

INDEX	PAGE
No. 3—(Continued):	
Depositions of John H. Mengler and Warren W. Dunnell	266
Index to Dunnell's Exhibits..	267
Witnesses, Applicant's:	
Dunnell, Warren W.	
—direct .....	292
—cross .....	359
Mengler, John H.	
—direct .....	270
—cross .....	286
Exhibits:	
A—Invoice Whedon Paper Converting Corporation, 6/5/34 .....	276
B—Shipping Report Whedon Paper Converting Corp. to Sani-Gard Sales Co., Buyers No. 243 .....	278
C—Shipping Report Dated 6/5/34 Referring to Buyers Order 243 .....	282
F—Purchase Order Sani-Gard Sales Company, 11/7/33 .....	298
G—Letter to C. D. Morton, 11/7/33 .....	301
H—Letter to Morton Manufacturing Company, 11/20/33 .....	306



## INDEX

## PAGE

## No. 3—(Continued) :

I—Purchase Order Sani-Gard Sales Company, No. 224, 11/7/33 .....	311
J—Invoice Morton Mfg. Co., 12/9/33 .....	314
L—Ledger Sheet Wholesale Paper & Twine Co., 447 Commercial St., Los Angeles .....	322
Q—Tabulation "Paper Toilet Seat Covers" ..	337
R—Letter: Sani-Gard Cover Co. to S. H. Kress & Co., 6/19/44..	347
S—Letter: Sani-Gard Cover Co. to Safeway Stores, Inc., 6/19/44..	349
T—Letter: Sani-Gard Cover Co. to Safeway Stores, Inc. ....	351
U—Letter: Safeway Stores to Sani-Gard Co., 6/29/44 .....	353

Findings of Fact and Conclusions of Law as Corrected by Order of Court of June 9, 1947	39
Conclusions of Law.....	46
Findings of Fact.....	39
Judgment .....	49
Memorandum Decision .....	35
Names and Addresses of Attorneys.....	1

INDEX

PAGE

Notice of Appeal to Circuit Court of Appeals.	50
Order Extending Time to Docket.....	56
Order re Exhibits, Dated 12/4/47.....	388
Order Settling Findings.....	38
Order Transmitting Exhibits and Reporter's Transcript to Circuit Court of Appeals....	52
Plaintiff's Reply to Defendant's Counterclaim and Answer .....	25
Reporter's Transcript .....	58
Witnesses, Defendant's:	
Brown, Gerald E.	
—direct .....	135
Crebbs, E. R.	
—direct .....	157
—cross .....	162
Dunnell, Warren W.	
—direct .....	143
—cross .....	165
—redirect .....	179
Evans, J. Clinton	
—direct .....	129
Knight, John B.	
—direct .....	92
—cross .....	104
—redirect .....	105
Vollmer, William A.	
—direct .....	138
Wilde, Drummond	
—direct .....	79, 110, 122

## INDEX

## PAGE

## Witnesses, Plaintiff's:

## Dunnell, Warren W.

—direct .....	60, 184
—cross .....	74
—redirect .....	77
—recross .....	78

Statement of Points on Which Appellant Intends to Rely on Appeal, and Designation of the Parts of the Record Which Appellant Thinks Necessary for the Consideration Thereof .....	383
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In the District Court of the United States for the  
Northern District of California, Southern  
Division

Civil Action No. 26230G

WARREN W. DUNNELL,

Plaintiff,

vs.

SAFEWAY STORES, INC., a Corporation of the  
State of Maryland,

Defendant.

COMPLAINT IN EQUITY UNDER THE  
TRADE-MARK LAWS TO REQUIRE THE  
COMMISSIONER OF PATENTS TO REG-  
ISTER A TRADE-MARK

Plaintiff complains and alleges:

I.

That the jurisdiction of this court of the subject-matter of this complaint depends upon the fact that the cause of action arises under the trade-mark laws of the United States, and particularly as set forth in § 4915 R. S. U. S., United States Code, Title 35, § 63 (applying particularly to patents), and Title 15, § 89, construed before and after its [1\*] enactment as making § 4915 R. S. U. S. applicable to trade-mark application proceedings, and annotations, Federal Code Annotated, under Title 15, § 89, page 736.

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\*Page numbering appearing at foot of page of original certified Transcript of Record.

## II.

That plaintiff, Warren W. Dunnell, is a citizen of the United States, residing in the City of Los Angeles, county of Los Angeles, and state of California.

## III.

That defendant, Safeway Stores, Inc., is a corporation organized and existing under and by virtue of the laws of the state of Maryland, doing business within the state of California and having its principal place of business at the city of Oakland, in the county of Alameda and the state of California.

## IV.

That in October, 1933, plaintiff Dunnell, doing business under the fictitious name of Sani-Gard Sales Company, acquired title, under the common law by adoption and use prior to all others, to the trade-mark "Safe Way" as applied to tissue paper toilet seat covers; and thereafter, beginning early in 1934, continued up to the filing, on April 12, 1944, (a period of over ten years) of a notice of opposition filed by defendant herein to an application, later herein described, by said plaintiff, Warren W. Dunnell, for registration under federal laws of said trade-mark "Safe Way" as so applied, extensively to sell and distribute such product under said trade-mark "Safe Way" in domestic interstate and foreign commerce, during said period of over ten years plaintiff Dunnell selling and distributing in said commerce 73,567,000 toilet seat covers under his said trade-mark [2] "Safe Way."



## V.

That of said 73,567,000 toilet seat covers so sold and distributed by plaintiff as set forth in the immediately preceding paragraph hereof, 4,080,000 of said toilet seat covers under said trade-mark were sold and distributed by applicant within the state of California, the state of the principal place of business of defendant Safeway Stores, Inc.

## VI.

That during the period referred to in Paragraph IV of this complaint, plaintiff sold and distributed over 2,000,000 of said toilet seat covers under said trade-mark "Safe Way" in Oakland and San Francisco, California, territory very close to defendant's principal place of business.

## VII.

That toilet seat covers are not among the items which have ever been manufactured, caused to be manufactured, offered for sale, or sold, by opposer or any of its subsidiary stores under the trade-mark "Safe Way," or under any other name or at all; that toilet seat covers are totally unsuitable for sale in opposer's stores, or any of them; that defendant Safeway Stores, Inc., has expressly admitted that such product, toilet seat covers, is not suitable for sale in any of its stores; that said defendant has refused to stock or attempt to sell toilet seat covers under any name. [3]

## VIII.

That the toilet seat covers of plaintiff Dunnell are only sold to a very special class of purchasers, namely, public service concerns, such as transportation lines, newspaper offices, public service stations, and others, who purchase from plaintiff Dunnell and distribute gratis to members of the public utilizing their toilet facilities; that plaintiff, Safeway Stores, is not in such class of purchasers and does not sell to such purchasers.

## IX.

That while it is true Safeway Stores, Inc., has a good reputation in the sale of grocery items, such reputation is only the reputation of any good grocery store in the selection and offer for sale of popular brands of merchandise of various food producers or manufacturers, while Plaintiff Dunnell's reputation in the distribution and sale of toilet seat covers under the trade-mark "Safe Way" is, as to any such reputation of opposer in the sale of said item, as 73,567,000 is to nothing—as defendant Safeway Stores, Inc., has never had any such product to sell, and has never even expressed a desire or intention to ever sell such product.

## X.

That during the time from the first adoption and use of said trade-mark "Safe Way" by plaintiff as heretofore alleged, plaintiff never in any of his catalogue listings, or otherwise, advertised the name

"Safe Way," but listed and advertised only under the fictitious name under which plaintiff [4] was operating, i.e., Sani Gard Cover Company or Sani Gard Sales Company, and during all of such time no instance of confusion by any of the purchasing public of such merchandise or any of the purchasers at defendant's grocery stores as to source of manufacture of said toilet seat covers under said trade-mark ever occurred, and there was no instance of confusion of anyone as to the source of manufacture or distribution of plaintiff's said product under said name.

## XI.

That defendant and those from which it acquired title of the name "Safeway" as applied to grocery stores, at no time during plaintiff's said wide and extensive use of said trade-mark "Safe Way" as applied to toilet seat covers, ever complained to plaintiff or any of his agents or distributors of any possible confusion or injury to defendant resulting or likely to result from plaintiff's said continued use of said trade-mark as aforesaid, and defendant and its predecessors have been guilty of laches in failing to complain of said use during the many years that plaintiff built up a national and international reputation and good will in said sales distribution, and that defendant is guilty of laches (if it had any possible cause of complaint) in failing, during plaintiff's exclusive long continued national and international use of said trade-mark, to protest against said continued use of said trade-mark "Safe Way" as so applied by applicant.

## XII.

That on the 19th day of May, 1942, plaintiff Dunnell filed in the United States Patent Office an application, Serial No. 453,099, for registration of said trade-mark "Safe [5] Way" as applied to said toilet seat covers under Federal laws, and after due proceedings had on such application on the 26th day of February, 1944, said mark was passed for publication in the Official Gazette of March 21, 1944, and was thereafter duly published.

## XIII.

That thereafter, on the 12th day of April, 1944, a notice of opposition was filed in the United States Patent Office, No. 23,281, by defendant Safeway Stores, Inc., to the registration of plaintiff Dunnell of said trade-mark on the alleged ground that the name "Safe Way" was a dominant part of said defendant's corporate name, and that its registration as a trade-mark for toilet seat covers does and would cause damage to defendant-opposer, Safeway Stores, Inc.

## XIV.

That on the 5th day of June, 1944, plaintiff Dunnell in said application for registration of said trade-mark, S. N. 453,099, and in said opposition No. 23,281, filed his answer to said notice of opposition, and thereafter testimony on behalf of each of the parties to said opposition No. 23,281 was taken and duly filed in the Patent Office.

## XV.

That thereafter, after a decision by the Examiner of Interferences of the United States Patent Office in said Opposition No. 23,281, denying said registration to applicant-plaintiff Dunnell of said trade-mark, an appeal was taken by applicant-plaintiff Dunnell from said decision of said [6] Examiner of Interferences to the Commissioner of Patents.

## XVI.

That thereafter, on the 24th day of April, 1946, the Commissioner of Patents rendered his decision on appeal in said opposition proceeding, No. 23,281, affirming the decision of the Examiner of Interferences and refusing to register the said trade-mark "Safe Way" as so applied, to applicant-plaintiff Dunnell.

## XVII.

That plaintiff Dunnell was and is dissatisfied with said decision of the Commissioner of Patents immediately above described, denying his application for registration of said trade-mark "Safe Way," and did not and has not appealed to the United States Court of Customs and Patent Appeals (as authorized by the statute, U. S. Code, Title 15, § 89) but, following the procedure set forth in U. S. Code Title 35, § 63, has elected instead of so appealing to file this bill in equity under said statute in this district court.

## XVIII.

That the denial by the Commissioner of Patents of plaintiff's said application for registration of said trade-mark "Safe Way" as applied to tissue paper toilet seat covers, his title to said trade-mark being undisputed, will cause great injury to plaintiff by, among other things, denying him access to the Federal courts in certain suits for infringement, and the granting of said plaintiff's said [7] application for registration cannot possibly damage or injure defendant in any way.

Wherefore, plaintiff demands that, notwithstanding the denial by the Commissioner of Patents of applicant's request for registration of said trade-mark as so applied, the Commissioner of Patents be authorized and directed to register said trade-mark as requested in said application for registration; that plaintiff recover his costs in this proceeding; and that the court grant such other, further and different relief as to the court shall seem meet.

WARREN W. DUNNELL,  
By WESTALL & WESTALL,  
JOSEPH F. WESTALL and  
EDWARD F. WESTALL,

His Attorneys.

By /s/ JOSEPH F. WESTALL.  
/s/ CHAS M. FRYER. [8]



State of California,  
County of Los Angeles—ss.

Warren W. Dunnell, being by me first duly sworn, deposes and says: That he is the plaintiff in the foregoing and above-entitled action; that he has read the foregoing complaint and knows the contents thereof; and that the same is true of his own knowledge, except as to the matters which are therein stated to be upon his information or belief, and as to those matters that he believes it to be true.

/s/ WARREN W. DUNNELL.

Subscribed and sworn to before me this 29th day of July, 1946.

[Seal]      /s/ CHARLES M. MAZLE,  
Notary Public in and for County of Los Angeles and  
State of California.

My Commission Expires Dec. 19, 1949.

[Endorsed]: Filed July 31, 1946. [9]

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[Title of District Court and Cause.]

ANSWER AND COUNTERCLAIM OF DE-  
FENDANT SAFEWAY STORES, INCOR-  
PORATED

As its answer to the complaint on file herein, Safe-  
way Stores, Incorporated, a corporation, impleaded

herein as Safeway Stores, Inc., admits, alleges and denies as follows:

First Defense

1. Defendant admits the allegations contained in paragraphs XII, XIV, XV and XVI of the complaint.

2. Defendant alleges that it is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraphs II, V, VI, VIII, X and XVII of the complaint. [10]

3. Answering paragraph IV of the complaint, defendant denies the allegation that in October, 1933, plaintiff Dunnell, doing business under the fictitious name of Sani-Gard Sales Company, acquired title under the common law by adoption and use prior to all others, to the trade-mark "Safe Way" as applied to tissue paper toilet seat covers; alleges that it is without knowledge or information sufficient to form a belief as to the truth of the other allegations contained in paragraph IV of the complaint.

4. Answering paragraph VII of the complaint, defendant admits that toilet seat covers are not among the items which have heretofore been manufactured, caused to be manufactured, offered for sale or sold by it or any of its subsidiary stores; denies each and every other allegation contained in said paragraph VII.

5. Answering paragraph IX of the complaint, defendant admits that defendant has a good reputa-

tion in the sale of grocery items; denies each and every other allegation contained in said paragraph.

6. Answering paragraph XIII of the complaint, admits the allegations therein contained, except that defendant denies that the ground of opposition that the name "Safe Way" was the dominant part of said defendant's corporate name, and that its registration as a trade-mark for toilet seat covers does and would cause damage to defendant-opposer, Safeway Stores, Inc., was the only ground of such opposition.

7. Defendant denies each and every allegation contained in paragraphs I, XI and XVIII of the complaint.

### Second Defense

1. The corporate name of the defendant is Safeway Stores, Incorporated, and it is a duly organized and existing [11] corporation under the laws of the State of Maryland.

2. Defendant and subsidiary corporations wholly owned by it have been extensively and continuously engaged since 1926 in the business of operating retail grocery stores under defendant's name "Safeway" and in manufacturing and other businesses related thereto. During 1941 and 1942 all of the assets, businesses and goodwill of said subsidiaries operating retail grocery stores in the United States were acquired by defendant, and since 1942 defendant, itself, has carried on said retail grocery business in the United States. On March 24, 1926, the date of defendant's incorporation, defendant's sub-

sidiaries operated approximately 322 stores under the name "Safeway," all located in the City of Los Angeles and other communities in Southern California. Defendant now owns and operates under the name "Safeway" approximately 2300 stores in 19 western states, 4 eastern states and the District of Columbia as follows:

Arkansas, Arizona, California, Colorado, District of Columbia, Idaho, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, Oklahoma, Oregon, South Dakota, Texas, Utah, Virginia, Washington, Wyoming.

In addition, defendant now owns and operates under the name "Safeway" approximately 140 stores in five provinces of Canada through its subsidiary Safeway Stores, Limited. At all times herein mentioned, defendant and its said subsidiaries have sold, and defendant now sells, in its said retail stores in the United States and Canada a complete line of foods and related household products, including paper products such as toilet tissue, paper towels, and paper napkins.

3. The name "Safeway" is the distinguishing and [12] dominant part of defendant's name. Defendant's name "Safeway" alone and without the words "Stores" and "Incorporated" has at all times herein mentioned been and is now prominently displayed in signs on its stores, and places of business, in newspaper, magazine, outdoor billboard, and car card advertisements, price tags, gummed tape, cash

register receipts, invoices, paper bags, display cards, and other forms of advertising. At all times herein mentioned defendant has expended, and does now expend, large sums each year for advertising in newspapers, radio broadcasts, magazines, outdoor billboards, car cards, and other advertising media. Substantially all of such advertising has made and does make prominent use of the word "Safeway" and, as a rule, the word "Safeway" alone is and has been used therein. Said advertising is intended to and has built up and maintained the reputation, goodwill and value of the name "Safeway," and said name is and at all times herein mentioned has been, a substantial part of the valuable goodwill of defendant. At all times herein mentioned, defendant and its predecessor subsidiaries have conducted and do now conduct said retail grocery business on the basic policy of reducing the cost of food to the consumer while maintaining the highest quality. Defendant's net sales in the year 1945 in the United States were \$595,604,796.67; the net sales in Canada in the year 1945 of defendant's subsidiary, Safeway Stores, Limited, were \$33,907,388.06 expressed in United States dollars.

4. By reason of the matters hereinabove alleged, the public has at all times herein mentioned, known and identified, and does now know and identify, defendant by the name "Safeway" alone. In the United States and Canada, generally, and in California, the name "Safeway" has acquired a secondary [13] meaning and suggests and means to the public the grocery and related businesses of defend-



ant and said subsidiaries. As a result of defendant's business policies and practices as aforesaid, and the competence and skill of defendant's officers and employees, the name "Safeway" has, likewise, come to signify in the public mind an organization of high standards.

5. On or about August 16, 1939, defendant's subsidiary, Safeway Stores, Incorporated, a Nevada corporation, deposited with the Commissioner of Patents a certified copy of its corporate charter, showing its corporate name "Safeway Stores, Incorporated," and received certificate of deposit No. 4220 therefor.

6. At some time prior to April, 1944, the exact time being unknown to defendant, plaintiff Warren W. Dunnell commenced selling, and is now selling, paper toilet seat covers under the name "Safe Way" in the State of California and elsewhere. Plaintiff and his customers distribute said toilet paper seat covers to the general public under said name "Safe Way."

7. Defendant is informed and believes and on such information and belief alleges, that prior to the year 1933, and at all times subsequent thereto, plaintiff has been familiar with the fact that there existed a national chain of retail grocery stores operated under the name "Safeway"; that plaintiff has at all said times understood the value of defendant's name "Safeway"; that plaintiff has thus adopted and used the name "Safe Way" with the purpose and intent of trading upon and appropriating for his own profit, the reputation, goodwill and value



connected with defendant's said name "Safeway" and with the purpose and intent of inducing the public to believe that plaintiff's product is connected with defendant, that plaintiff's business is owned [14] and operated by defendant, or is in some way connected with defendant, and that the quality of product sold by plaintiff is similar in kind and equal in quality to that of defendant.

8. Defendant learned for the first time of plaintiff's use of the name "Safe Way" as aforesaid, on or about March 28, 1944, shortly after the first publication in the Official Gazette of the United States Patent Office of an application by plaintiff for registration of the name "Safe Way" as a trade-mark as applied to paper toilet seat covers. Thereafter, and on or about April 12, 1944, defendant filed an opposition in the United States Patent Office to the registration by plaintiff of said name as a trade-mark, and at all times subsequent to the filing of said opposition defendant has opposed, and does now oppose, the registration by plaintiff of said name.

9. If plaintiff continues to use the name "Safe Way" in connection with his said business, or any other business which he may carry on, confusion will arise in the public mind, and the public will be deceived and misled for the reason that members thereof will reasonably conclude that plaintiff is in some way sponsored by or connected with defendant.

10. If plaintiff continues to use the name "Safe Way" as aforesaid, defendant will lose a part of the value of its goodwill which has been built up by

defendant in connection with said name "Safeway" by large expenditures of money and effort over the period of the past twenty years. Defendant will further be injured if plaintiff in its business practices should not conform to the high standards heretofore established and maintained by defendant.

11. The name "Safeway" sought to be registered by plaintiff consists merely in the name of the defendant-opposer [15] corporation, or the distinctive, dominant portion thereof, not written, printed, impressed or woven in some particular or distinctive manner, and not associated with a portrait of an individual, and is therefore within the prohibition against registration of such name contained in Section 5(b) of the Act of 1905 (15 U.S.C. Sec. 85(b)).

12. Plaintiff Warren W. Dunnell, is not the owner of the trade-mark sought to be registered by him, and he was not entitled to the exclusive use thereof at the time of the filing of his application for registration thereof, nor at any other time.

### Third Defense

At all times between the period from October, 1933 (the first use by plaintiff of said name alleged in said complaint) to May 15, 1942 (the date of plaintiff's application for registration) defendant was engaged in developing and expanding its business under the name "Safeway". During said period the gross retail sales of defendant's said subsidiaries in the United States increased from \$175,980,306.78 for the year ended 1933 to \$441,294,779.12 for the year ended 1941. The alleged

right of action set forth in the complaint is barred by plaintiff's laches in failing to apply prior to 1942 for registration for said trade-mark "Safe Way" as alleged in the complaint.

### Counterclaim

As its counterclaim to the complaint on file herein Safeway Stores, Incorporated, a Corporation, impleaded herein as Safeway Stores, Inc., alleges as follows:

1. Counterclaimant, Safeway Stores, Incorporated, is a corporation organized and existing under and by virtue of the laws of the State of Maryland, and is a citizen of the State. The matter in controversy exceeds the sum of Three Thousand Dollars [16] (\$3,000.00) exclusive of interest and costs.

2. Counterclaimant and subsidiary corporations wholly-owned by it have been extensively and continuously engaged since 1926 in the business of operating retail grocery stores under counterclaimant's name "Safeway" and in manufacturing and other businesses related thereto. During 1941 and 1942 all of the assets, businesses and goodwill of said subsidiaries operating retail grocery stores in the United States were acquired by counterclaimant, and since 1942 counterclaimant, itself, has carried on said retail grocery business in the United States. On March 24, 1926, the date of counterclaimant's incorporation, counterclaimant's subsidiaries operated approximately 322 stores under the name "Safeway", all located in the City of Los Angeles and other communities in Southern Cali-

fornia. Counterclaimant now owns and operates under the name "Safeway" approximately 2300 stores in 19 western states, 4 eastern states and the District of Columbia, as follows:

Arkansas, Arizona, California, Colorado, District of Columbia, Idaho, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, Oklahoma, Oregon, South Dakota, Texas, Utah, Virginia, Washington, Wyoming.

In addition, counterclaimant now owns and operates under the name "Safeway" approximately 140 stores in five provinces of Canada through its subsidiary Safeway Stores, Limited. At all times herein mentioned counterclaimant and its said subsidiaries have sold and now sell in its said retail stores in the United States and Canada a complete line of food and related household products, including paper products such as toilet tissue, paper towels, and paper napkins.

3. The name "Safeway" is the distinguishing and dominant part of counterclaimant's name. Counterclaimant's [17] name "Safeway" alone and without the words "Stores" and "Incorporated" has at all times herein mentioned been and is now prominently displayed in signs on its stores, and places of business, in newspaper, magazine, outdoor billboard and car card advertisements, price tags, gummed tape, cash register receipts, invoices, paper bags, display cards, and other forms of advertising. At all times herein mentioned counterclaimant has

expended and does now expend large sums each year for advertising in newspapers, radio broadcasts, magazines, outdoor billboards, car cards, and other advertising media. Substantially all of such advertising has made and does make prominent use of the word "Safeway" and, as a rule, the word "Safeway" alone is and has been used therein. Said advertising is intended to and has built up and maintained the reputation, goodwill and value of the name "Safeway" and said name is and at all times herein mentioned has been a substantial part of the valuable goodwill of counterclaimant. At all times herein mentioned, counterclaimant and its predecessor subsidiaries have conducted and do now conduct said retail grocery business on the basic policy of reducing the cost of food to the consumer while maintaining the highest quality. Counterclaimant's net sales in the year 1945 in the United States were \$595,604,796.67; the net sales in Canada in the year 1945 of counterclaimant's subsidiary, Safeway Stores, Limited, were \$33,907,388.06 expressed in United States dollars.

4. By reason of the matters hereinabove alleged, the public has at all times herein mentioned, known and identified, and does now know and identify counterclaimant by the name "Safeway" alone. In the United States and Canada, [18] generally, and in California, the name "Safeway" has acquired a secondary meaning and suggests and means to the public the grocery and related businesses of counterclaimant and said subsidiaries. As a result of counterclaimant's business policies and practices as



aforesaid, and the competence and skill of counterclaimant's officers and employees, the name "Safeway" has, likewise, come to signify in the public mind an organization of high standards.

5. On or about August 16, 1939, counterclaimant's subsidiary, Safeway Stores, Incorporated, a Nevada corporation, deposited with the Commissioner of Patents a certified copy of its corporate charter, showing its corporate name "Safeway Stores, Incorporated," and received certificate of deposit No. 4220 therefor.

6. At some time prior to April 1944, the exact time being unknown to counterclaimant, counterclaim-defendant Warren W. Dunnell commenced selling, and is now selling, paper toilet seat covers under the name "Safe Way" in the State of California and elsewhere. Counterclaim-defendant and its purchasers distribute said paper toilet seat covers to the general public under said name "Safe Way."

7. Counterclaimant is informed and believes, and on such information and belief alleges, that prior to the year 1933, and at all times subsequent thereto, counterclaim-defendant has been familiar with the fact that there existed a national chain of retail grocery stores operated under the name "Safeway"; that counterclaim-defendant has at all said times understood the value of counterclaimant's name "Safeway"; that counterclaim-defendant has thus adopted and used the name "Safe Way" with the purpose and intent of [19] trading upon and appropriating for his own profit, the reputation,



goodwill and value connected with counterclaimant's said name "Safeway" and with the purpose and intent of inducing the public to believe that counterclaim-defendant's product is connected with counterclaimant, that counterclaim-defendant's business is owned and operated by counterclaimant, or is in some way connected with counterclaimant, and that the quality of product sold by plaintiff is similar in kind and equal in quality of that of counterclaimant.

8. Counterclaimant learned for the first time of counterclaim-defendant's use of the name "Safe Way" as aforesaid, on or about March 28, 1944, shortly after the first publication in the Official Gazette of the United States Patent Office of an application by counterclaim-defendant for registration of the name "Safe Way" as a trade-mark as applied to paper toilet seat covers. Thereafter, and on or about April 12, 1944, counterclaimant filed an opposition in the United States Patent Office to the registration by counterclaim-defendant of said name as a trade-mark, and at all times subsequent to the filing of said opposition counterclaimant has opposed, and does now oppose, the registration by counterclaim-defendant of said name.

9. If counterclaim-defendant continues to use the name "Safe Way" in connection with his said business, or any other business which he may carry on, confusion will arise in the public mind, and the public will be deceived and misled for the reason that members thereof will reasonably conclude that

counterclaim-defendant is in some way sponsored or connected with counterclaimant.

10. If counterclaim-defendant continues to use [20] the name "Safe Way" as aforesaid, counterclaimant will lose a part of the value of its goodwill which has been built up by counterclaimant in connection with said name "Safeway" by large expenditures of money and effort over the period of the past twenty years. Counterclaimant will further be injured if counterclaim-defendant in its business practices should not conform to the high standards heretofore established and maintained by counterclaimant.

11. Counterclaimant's name, reputation, goodwill and business have been, and are now being, and, unless counterclaim-defendant is restrained, will be, injured, by counterclaim-defendant's use of said name, and by the aforesaid resulting confusion, deception and misleading, all to counterclaimant's irreparable injury and damage. It is impossible to estimate the injury and damage heretofore suffered by counterclaimant and which counterclaimant will continue to suffer, unless counterclaim-defendant is restrained, as a result of counterclaim-defendant's use of said name. Counterclaimant has no adequate remedy at law for the damage which has resulted, and which, unless counterclaim-defendant is restrained, will result as hereinabove alleged.

Wherefore, defendant and counterclaimant, Safeway Stores, Incorporated, prays:

1. That plaintiff and counterclaim-defendant take nothing by his said complaint, and that the same be dismissed;

2. That plaintiff and counterclaim-defendant, and all persons acting for plaintiff and counterclaim-defendant as employees, agents or otherwise, be permanently restrained and enjoined from using the name "Safe Way", or any similar name, in the conduct of his said business, or otherwise; [21]

3. That defendant and counterclaimant have its cost and such other and further relief as to this court may seem proper.

Dated: San Francisco, California, this 23d day of September, 1946.

/s/ MITCHELL T. NEFF,

/s/ WILLARD S. JOHNSTON,

ORRICK, CAHLQUIST, NEFF,

BROWN & HERRINGTON,

Attorneys for Defendant and  
Counterclaimant.

Receipt of a copy of the foregoing Answer and Counterclaim of defendant Safeway Stores, Incorporated, is hereby admitted this 23d day of September, 1946.

WESTELL & WESTELL,

JOSEPH F. WESTELL,

CHAS. M. FRYER,

Attorneys for Plaintiff.

[Endorsed]: Filed Sept. 23, 1946. [22]

[Title of District Court and Cause.]

PLAINTIFF'S REPLY TO DEFENDANT'S  
COUNTERCLAIM AND ANSWER

Now comes the above-named plaintiff, counterclaim defendant, and for his reply to the counterclaim in defendant's Answer served September 23, 1946, and for reply (as hereinafter indicated) to said Answer:

I.

Alleges that said counterclaim fails to state a claim upon which relief can be granted.

II.

Said alleged counterclaim is not germane to the cause of action stated in the complaint in that the complaint sets forth only averments upon which, under a special statute, the court is requested to authorize the Commissioner to grant a requested registration of trade-mark, the complaint being in effect against the Commissioner of Patents only, there being no claim whatsoever stated against defendant, counterclaimant.

III.

The alleged cause of action of said counterclaim is barred by the provisions of §343 of the Code of Civil Procedure of the State of California, which applies to both legal and equitable actions, so far as it applies to any alleged cause of action existing before counterclaimant became owner of said subsidiaries.

## IV.

Defendant and its predecessors in interest have been guilty of laches by reason of over ten years' delay in instituting any proceeding for relief by reason of any fact or circumstance set forth in said counterclaim, during which [23] time, with full knowledge of defendant, counterclaimant, and its predecessors in interest, plaintiff, counterclaim defendant, at great expense and effort, built up a good will in the sale of toilet seat covers under the trade-mark "Safe Way" amounting to many millions of said covers in domestic, interstate and foreign commerce, selling over 2,000,000 of said product in and near the city of Oakland, which is defendant counterclaimant's principal place of business, all without any notice or protest of counterclaimant or any of predecessors in interest, and without any reason for any such protest or the institution of any such proceedings, and during all of which time defendant counterclaimant never manufactured, offered for sale, or sold any toilet seat covers under the trade-mark "Safeway" or under any other name or trade-mark, or at all, and that defendant counterclaimant is now estopped by reason of such laches from asserting any such alleged counterclaim.

## V.

In answer to paragraph 1 of said counterclaim, plaintiff admits that defendant, counterclaimant, is a corporation organized and existing under and by virtue of the laws of the state of Maryland, and is a citizen of said state; but denies that the matter



in controversy in this suit exceeds the sum of Three Thousand Dollars (\$3,000) exclusive of interest and costs, or any other sum whatsoever.

## VI.

In answer to paragraph 2 of said counterclaim, plaintiff is without knowledge or information sufficient to form a belief as to each of the allegations of paragraph 2 of said counterclaim, and upon such ground denies each and every of said allegations.

## VII.

In answer to paragraph 3 of said counterclaim, plaintiff, counterclaim defendant, denies that "Safe-way" is a distinct and dominant part of counterclaimant's name as stated in paragraph 3 of said counterclaim; and as to the remaining averments of said paragraph 3 plaintiff states that he is without knowledge and information sufficient to form a belief as to the truth of each of said averments, and upon such ground denies the same.

## VIII.

In answer to paragraph 4 of said counterclaim, plaintiff, counterclaim defendant, states that he has sold his "Safe Way" toilet seat covers to only a very special class of purchasers, and not to the general public which purchases defendant, counterclaimant's products in its said grocery stores; and that the name "Safe Way" as applied to toilet seat covers sold by plaintiff, counterclaim defendant, is not known to the general purchasing public con-



stituting defendant, counterclaimant's, customers, but is well known only to public service concerns as mentioned in paragraph VIII of the complaint herein, and such toilet seat covers are not among any of the items which defendant, counterclaimant, has ever manufactured, offered for sale, or sold to anyone under any name, and such product is not suitable for sale in defendant counterclaimant's said stores as fully set forth in paragraph VII of the complaint herein.

Further in answer to the specific allegations of paragraph 4 of said counterclaim, plaintiff, counterclaim defendant, alleges that he is without knowledge or information sufficient to form a belief as to the truth of each of said said averments, and upon such ground denies each and every of said allegations. [25]

#### IX.

In answer to paragraph 5 of said counterclaim, plaintiff, counterclaim defendant, states that he is without knowledge or information sufficient to form a belief as to the truth of each of the averments of said paragraph, and upon such ground denies each and every of them.

#### X.

In answer to paragraph 6 of said counterclaim, plaintiff, counterclaim defendant, admits that sometime prior to April, 1944, which was very long prior to the date last mentioned, namely in October, 1933, plaintiff counterclaim defendant, adopted and first used the name "Safe Way" as applied to toilet

seat covers, and, beginning in January, 1934, and continuing up to the present time, a period of over ten years, sold such covers under said trade name not only in the state of California, but most extensively throughout the United States and in foreign commerce, the extent of such sale and distribution of covers under such trade-mark being over 75,000,000 of said covers, over 5,000,000 being sold in the State of California, and over 2,000,000 being sold in the territory adjacent the principal place of business of defendant, counterclaimant, in Oakland, California, as set forth in paragraphs IV, V, VI of the complaint herein. Plaintiff denies, however, that such toilet seat covers under said trade-mark were at any time, or at all, distributed to the general public customers of defendant, counterclaimant's, stores, or any of them, but were sold only to a special class of purchasers as set forth in paragraph VIII of the complaint herein, and that during all this time defendant, counterclaimant, has never manufactured, caused to be manufactured, offered for sale, or sold any toilet seat covers under the [26] name "Safeway", or under any other name, or at all, such toilet seat covers never having been stocked or attempted to be sold by defendant, counterclaimant, and that said toilet seat covers are totally unsuitable for distribution by defendant, counterclaimant, or any of its subsidiaries in said grocery stores.

## XI.

In answer to paragraph 7 of said counterclaim, plaintiff denies each and every allegation of said

paragraph, and furthermore states that at the beginning of such sale of toilet seat covers under said trade-mark by plaintiff, counterclaim defendant, he had no knowledge of the extent of any such grocery store operations by counterclaimant, and that all of plaintiff counterclaim defendant's sales and offers for sale were in the name of Sani-Gard \*\* Company, the name "Safe Way" not being used in any listing or advertisement relating to said product, and that his special class of purchasers only first heard of the trade-mark as so applied by him when they contacted his Sani-Gard \*\* Company for information, or to purchase said articles; and furthermore no customers was ever confused as to the source of manufacture and distribution of toilet seat covers under said trade-mark "Safe Way" or mistook defendant, counterclaimant, as a source of such manufacture or distribution.

## XII.

In answer to paragraph 8 of said counterclaim, plaintiff, counterclaim defendant, states that he is without knowledge, or information sufficient to form a belief as to the truth of each of the averments of said paragraph, and upon such ground denies each and every of said allegations, except that plaintiff admits that defendant, counterclaimant, did file an opposition in the United States Patent Office on or about [27] October 12, 1944, and that defendant, counterclaimant, did oppose and still continues to oppose registration of said trade-mark by plaintiff, counterclaim defendant.

## XIII.

In answer to paragraph 9 of said counterclaim, plaintiff, counterclaim defendant, denies each and every of the allegations of said paragraph, and alleges that during all the years of extensive use of said name as so applied by plaintiff, counterclaim defendant, no confusion has ever arisen or occurred among any of the purchasing public, nor have any purchasers or persons desiring to purchase said product under said name been deceived or misled as to the source of manufacture and distribution of said product, as being plaintiff, counterclaim defendant, under the name of Sani Gard \* \* \* Company, and no one reasonably or otherwise will or could conclude that such sale and distribution is in some way sponsored or connected with counterclaimant.

## XIV.

Answering paragraph 10 of said counterclaim, plaintiff, counterclaim defendant, denies each and every of the allegations of said paragraph and denies that defendant, counterclaimant, has ever had any good will whatsoever in the sale or distribution of toilet seat covers under the trade-mark "Safeway" or under any other name; and further that plaintiff, counterclaim defendant's reputation and business practices have always conformed with the highest of standards in the sale and distribution of many millions of said product under said name over very many years, and that such reputation and business practices of plaintiff, counterclaim de-

fendant, is equal to or superior to any asserted reputation of defendant, counterclaimant, in any use of said trade-mark. [28]

## XVI.

Answering paragraph 11 of said counterclaim, plaintiff, counterclaim defendant, denies each and every of the allegations of said paragraph 11, alleging that defendant, counterclaimant's, name, reputation, good will and business have in no way been injured by any act of this plaintiff, counterclaim defendant, in the premises, denies any injury or damage whatsoever under counterclaim, alleging also that defendant, counterclaimant, does not now have, and never did have, any reputation of any kind or good will or business in the sale of any kind of toilet seat covers under any name whatsoever, and that there has been no confusion, deception, or misleading of anyone by any act of this plaintiff, counterclaim defendant, in the sale and distribution of toilet seat covers, and that the continuation by plaintiff, counterclaim defendant, of his present practices in selling and offering for sale toilet seat covers under said trade-mark will not result in any damage or injury whatsoever to defendant, counterclaimant. Plaintiff, counterclaim defendant, however, admits that it is impossible to estimate any damage or injury past, present or prospective, as alleged in said paragraph, as defendant, counterclaimant, has never suffered any such damage or injury whatsoever. Plaintiff, counterclaim defendant, denies that defendant,



counterclaimant, has no adequate remedy of law for damages, and denies that it has ever suffered or could possibly suffer any damage by or on account of any act of plaintiff, counterclaim defendant, in the premises.

#### First Affirmative Defense Against the Answer and Counterclaim:

Plaintiff, counterclaim defendant, alleges that defendant, counterclaimant, did not become the owner of any of the stores mentioned in its counterclaim until the end of 1942, one year and a little over three months before the filing, on April 12, 1944, of its opposition, and any damages which it might have suffered could only be computed from the time it became such owner, as subsidiaries are not parties to this suit.

#### Second Affirmative Defense Against the Answer and Counterclaim

“Safeway” is an expression of such commonplace significance in the language that its use in association with products unrelated to opposer’s (defendant’s) business would not be likely to, and does not, suggest such opposer (defendant and counterclaimant) in the mind of the public in connection particularly with applicant’s toilet seat covers. Opposer (defendant and counterclaimant) does not deal, and has never dealt, in toilet seat covers, nor would purchasers expect to find merchandise of that character in a chain grocery store; and plaintiff alleges that it



thus appears clear that plaintiff's use of the mark he seeks to register would not confuse the public to opposer's (defendant's) injury; and plaintiff further alleges that the trade-mark "Safeway" was and has been applied by many others than plaintiff and defendant in this suit to many kinds of articles of merchandise, both of a character which might be sold in chain grocery stores, and of a character (like plaintiff's said seat covers) which would not be found in grocery stores such as those of opposer (defendant), and in so many different ways, and as part of the business names of so many concerns, from a time long prior to the first use by opposer (defendant) in its alleged corporate name, that the use of said name [30] "Safeway" is no more calculated to denote defendant opposer than it is to indicate any of the many others who, as aforesaid, have used said name.

Wherefore, plaintiff, counterclaim defendant, prays that said counterclaim be dismissed; that plaintiff, counterclaim defendant, recover his costs for this proceeding; and that the court grant such other and further or different relief as to the court will seem meet.

WESTALL AND WESTALL,

By /s/ JOSEPH F. WESTALL,

By /s/ EDWARD F. WESTALL,

Attorneys for plaintiff,  
counterclaim defendant.

Received copy of the within "Plaintiff's Reply to

Defendant's Counterclaim and Answer" this 11th day of October, 1946.

ORRICK, DAHLQUIST, NEFF,  
BROWN & HERRINGTON,  
By DARIEN A. PALMER,  
Attorneys for defendant,  
counterclaimant.

[Endorsed]: Filed Oct. 11, 1946. [31]

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In the United States District Court for the  
Northern District of California, Southern  
Division

No. 26230-G

WARREN W. DUNNELL,

Plaintiff,

vs.

SAFEWAY STORES, INC., a corporation  
of the State of Maryland,

Defendant.

### MEMORANDUM DECISION

Goodman, District Judge. [32]

This is a bill in equity under 35 USCA § 63 for a declaration by the court that plaintiff is entitled to the registration of the Trade-mark "Safeway" pursuant to his application therefore filed in the Patent Office, Serial No. 453,099. The Commissioner of patents sustained the opposition of the defend-

ant to the granting of plaintiff's application and refused the registration.

Plaintiff, not having appealed from the Commissioner's decision to the Court of Customs and Patent Appeals, filed this action within the time and as provided in 35 USCA § 63.

Plaintiff manufactures sanitary paper covers for toilet seats and distributes them in containers to public lavatories. The containers are boxes which may be affixed to walls or otherwise installed in close proximity to toilets and from which the seat covers may be conveniently withdrawn. On the containers are the words "Safe" and "Way" with the drawing of a toilet seat between the two words. It is the words "Safe Way," as thus used, for which plaintiff sought trade mark registration.

Defendant corporation is owner and operator of a national chain of approximately 2,300 retail grocery stores in twenty-four of the states of the United States. The evidence without dispute shows that the general public identifies these stores under the name "Safeway." Much effort and money have been expended to establish the good will of defendant's stores under the name "Safeway."

The Commissioner sustained the opposition to plaintiff's application for registration mainly on the ground the Safeway stores sell such "paper products as toilet tissue and paper towels, which are clearly of the same descriptive properties as applicant's paper toilet seat covers" and therefore the mark used by plaintiff "constitutes a substantial appropriation of opposer's corporate name."

There is no question in this case, and I so find, that the mark used by plaintiff is upon an article not in competition with the merchandise offered for sale by defendant. It is unnecessary to cite the long list of authorities sustaining the doctrine that even as to non-competing goods, courts of equity will prevent "unfair" appropriation of another's good will name.\*

But this doctrine has certain limits. If the relationship of the products is so remote as to foreclose the possibility that they come from the same source, equity will not enforce the so-called "doctrine of non-competing goods." *Waterman & Co. v. Gordon*, 2 Cir. 72 Fed. (2d) 272; *Bulova Watch Co. v. Stolzberg*, 69 Fed. Supp. 543. In the latter case, Judge Sweeney cites as an example of too remote a relationship of commodities, steam shovels and lipsticks.

Here, plaintiff's toilet seat covers are not sold to the public generally. In fact they are not sold at all. Instead a sanitary service is furnished public lavatories. The public using these lavatories pays nothing for the seat cover. The mark of plaintiff, the evidence shows, refers to a method of use and is not a name descriptive of the article itself.

From the evidence it is clear to me that there is not the slightest relationship between the merchandise of the defendant and the kind of sanitary serv-

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\**Aunt Jemina Mill Co. v. Rigney*, 2 Cir. 247 Fed. 407; *Eastman Photo Material Co. v. Griffiths Cycle Co.* 15 R.P.C. 105; *Wall v. Rolls Royce of Amer.* 3 Cir. 4 Fed. (2d) 333; *Yale Elect. Corp. v. Robertson*, 2 Cir. 26 Fed. (2d) 972.

ice provided by plaintiff. Not by the wildest stretch of imagination [34] could a person using plaintiff's seat covers in a public lavatory, be confused at all into believing that by such use he was purchasing defendant's merchandise.

If the relationship between steam shovels and lipsticks be considered too remote, a fortiori, the relationship between the groceries of defendant's retail stores is indeed remote from a sanitary service supplied to lavatories. There is no "unfairness" in plaintiff's conduct here which warrants the application of the "non-competitive goods" doctrine.

Upon findings to be presented, a decree will enter in favor of plaintiff and against defendant upon its counterclaim.

Dated: May 19, 1947.

LOUIS E. GOODMAN,

United States District Judge.

[Endorsed]: Filed May 20, 1947. [35]

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[Title of District Court and Cause.]

### ORDER SETTLING FINDINGS

Ordered:

(1) Defendant's proposed amendment No. 1 is allowed as follows: "Since 1926 defendant has been so engaged in the operation under the name 'Safeway' of retail grocery stores and sells therein foods and grocery products including paper toilet tissue,

sanitary napkins, facial tissue, paper cups, paper towels, and paper napkins.”

(2) In paragraph XI of proposed findings change the words “even a single” to “any.”

(3) Omit paragraphs VII, VIII and IX of the proposed conclusions, inasmuch as decision is not based on such [36] findings.

(4) Otherwise the proposed findings are approved.

(5) Let the findings be engrosed accordingly.

Dated: June 9, 1947.

LOUIS E. GOODMAN,

United States District Judge.

[Endorsed]: Filed June 9, 1947. [37]

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[Title of District Court and Cause.]

FINDINGS OF FACT AND CONCLUSIONS OF  
LAW AS CORRECTED BY ORDER OF  
COURT OF JUNE 9, 1947.

Pursuant to Rule 52 of the Rules of Civil Procedure and local rule 5 (e) of this court, the court makes the following findings of fact and conclusions of law:

Findings of Fact

I.

Plaintiff is a resident of the city of Los Angeles, county of Los Angeles, and state of California.



## II.

Defendant is a corporation organized and existing under the laws of the state of Maryland, and having its principal place of [38] business in the city of Oakland, county of Alameda, and state of California.

## III.

On October 28, 1933, plaintiff Dunnell adopted, and continuously and extensively thereafter used in domestic, interstate and foreign commerce to the time of trial of this action, the trade-mark "Safe Way" within a design, as shown in Plaintiff's Exhibit 1, copy of application of plaintiff Dunnell, Serial No. 453,099, for registration under federal law of said trade-mark as applied to paper toilet seat covers.

## IV.

Said application mentioned in the immediately preceding finding was thereafter passed for publication, and within due time defendant herein (opposer before the Patent Office) served and filed a notice of opposition of said defendant-opposer, Safeway Stores, Inc., to said registration.

## V.

After issues joined on said notice of opposition and testimony duly taken, said opposition was sustained by the Examiner of Interferences of the Patent Office, from which decision plaintiff herein appealed to the Commissioner of Patents, who thereafter, on April 24, 1946, affirmed said decision of

the Examiner of Interferences, said decision of the Commissioner appearing as paper 37 in Plaintiff's Exhibit 2 in this action, and reported at 169 U. S. P. Q. 204.

## VI.

Within due time after said last-mentioned decision of the Commissioner of Patents, plaintiff in this action, Dunnell, [39] elected to institute this action under § 4915 R. S. U. S., Title 35, § 63, U. S. Code, and Title 15, § 89, U. S. Code, instead of appealing to the United States Court of Customs and Patent Appeals, and thereafter defendant herein filed its answer to the complaint.

## VII.

Plaintiff manufactures sanitary paper covers for toilet seats and distributes them in containers to public lavatories. The containers are boxes which may be affixed to walls or otherwise installed in close proximity to toilets and from which the seat covers may be conveniently withdrawn. On the containers are the words "Safe" and "Way" with the drawing of a toilet seat between the two words. It is the words "Safe Way" as thus used, for which plaintiff sought trade-mark registration, disclaiming the representation of a toilet seat cover except as part of the said trade-mark claimed.

## VIII.

Plaintiff's toilet seat covers are not sold to the public generally. In fact they are not sold at all.

Instead a sanitary service is furnished public lavatories. The public using these lavatories pays nothing for the seat cover.

## IX.

Defendant corporation is owner and operator of a national chain of approximately 2,300 retail grocery stores in twenty-four of the states of the United States. The evidence without dispute shows that the general public identifies these stores under the name "Safeway." Much effort and money have been expended to establish the good will of defendant's stores under the name "Safeway." Since 1926 defendant has been so engaged in the operation, under the name "Safeway," of retail grocery stores, and sells [40] therein foods and grocery products, including paper toilet tissue, sanitary napkins, facial tissue, paper cups, paper towels, and paper napkins.

## X.

The Commissioner sustained the opposition to plaintiff's application for registration mainly on the ground the Safeway stores sell such "paper products as toilet tissue and paper towels, which are clearly of the same descriptive properties as applicant's paper toilet seat covers" and therefore the mark used by plaintiff "constitutes a substantial appropriation of opposer's corporate name." The evidence in this action shows that they are not of the same descriptive properties.

## XI.

The evidence is conclusive, and in fact it is admitted by defendant, that neither defendant nor any of its subsidiary corporations, of which it owned stock or which it afterwards acquired, at the end of 1942 (1941 as to a single one of them) which was only one year and three months before the filing of said opposition, ever had a single call for toilet seat covers, nor did defendant or any of its subsidiaries ever manufacture, cause to be manufactured, approve for sale, purchase for sale, or offer for resale, any toilet seat cover under the name "Safe Way" or under any other name, or at all.

## XII.

During all the time from plaintiff's first adoption and use of said trade-mark, the evidence shows that no one ever confused the source of manufacture, distribution or sponsorship of plaintiff Dunnell's said product (or any other seat cover whatsoever) as being by defendant in this action. [41]

## XIII.

The evidence conclusively shows that plaintiff only sold his toilet seat covers under said trade-mark to public service corporations, such as gasoline service stations, transportation companies, newspaper offices, and others, and not to the general public including grocery store customers, for distribution by said concerns gratis to users of said public services.

## XIV.

There is no evidence that plaintiff ever traded on any reputation of defendant; on the contrary, always, from his first adoption and use of the name until and through the opposition proceedings in this case, plaintiff advertised said product under said name—not in mediums easily accessible to grocery store customers—but in special trade lists, and which could be reached by his special class of distributors, and then only under his fictitious name “Sani-Gard Sales Company”, duly registered under the laws of the state of California, and later, after a slight change in the name, “Sani-Gard Cover Company.” The latter was also registered under the laws of the state of California, and all of said products were plainly marked with the source of manufacture, “Sani-Gard \* \* \* Company” during all the years plaintiff distributed said product, and during all such time plaintiff Dunnell’s special customers were kept advised of his source of manufacture.

## XV.

While it may be conceded that defendant has a good reputation as a distributor of grocery store items (toilet seat covers under any name whatsoever never having been among such items of distribution by defendant or any of its subsidiaries), plaintiff’s reputation in the sale of toilet seat covers under said trade-mark and under his own fictitious name, “Sani-Gard \* \* \* Company,” up to [42] the time of the trial of this action is conclusively proven by sales aggregating 172,725,000 toilet seat covers.



## XVI.

The evidence shows conclusively that up to the time of the filing of the opposition in the Patent Office by defendant in this action of the over 172,000,000 toilet seat covers distributed by plaintiff Dunnell (as set forth in Finding XV hereof) plaintiff Dunnell distributed in the state of California alone 44,080,000 toilet seat covers under said trade-mark, at least, approximately, twenty-five per cent of said sales being in the Oakland San Francisco Bay territory (defendant's principal place of business being in Oakland), all without protest on behalf of defendant.

## XVII.

There is no evidence in the record of this action to support any allegation or inference of damage to defendant, of unfair competition by plaintiff with any activities of defendant; on the contrary, the evidence shows conclusively that defendant has not been damaged by any use by plaintiff of his said trade-mark as *to* applied, and cannot in the future be damaged by granting the prayer of the complaint.

## XVIII.

The mark of plaintiff, as the evidence shows, refers to a method of use and is not a name descriptive of the article itself.

## XIX.

From the evidence it is clear to this court that there is not the slightest relationship between the



merchandise of the defendant and the kind of sanitary service provided by plaintiff. Not by the wildest stretch of imagination could a person using [43] plaintiff's seat covers in a public lavatory, be confused at all into believing that by such use he was purchasing defendant's merchandise.

## XX.

There is and has been no "unfairness" in plaintiff's conduct, as recited in defendant's counterclaim, or otherwise, to warrant application of the "non-competitive goods" doctrine. Any relationship between groceries of defendant's retail stores is extremely remote from the sanitary service by plaintiff supplied to lavatories.

Dated this 18th day of June, 1947.

LOUIS E. GOODMAN,

United States District Judge.

## Conclusions of Law

### I.

This court has jurisdiction of the parties in the subject matter of this action.

### II.

It is not necessary under the express provisions of the Act, Title 35, §38, U. S. Code, and Title 15, §83, U. S. Code, to join the Commissioner of Patents as a party to this action.

## III.

This action requires a trial de novo, and is not an appeal from any decision of the Patent Office denying registration. [44]

## IV.

Defendant has not been damaged, as asserted in its counterclaim, and cannot be damaged in the future, by any act of plaintiff in the use of his said trade-mark as so applied, nor can defendant be damaged by the authorization of this court to the Patent Office to grant registration of his trade-mark as prayed in the complaint.

## V.

Plaintiff became the owner of said trade-mark "Safe Way" as so applied, under the common law by adoption and use in October, 1933, and since said date has not abandoned the use of said mark, and is still the owner thereof.

## VI.

The extensive use of the name "Safeway" by individuals, corporations or concerns other than defendant in this action in their corporate or business names, and such extensive use of said mark as a trade-mark as shown by many registrations of it prior to the time defendant in this action acquired title to the stores of its alleged subsidiary corporations (in which it owned stock prior to acquirement of title) should bar defendant from opposing applicant's registration and warrant the grant of the relief prayed in the complaint.

## X.

The circumstances (even if true, but not shown by the evidence and not proven or capable of inference from the evidence) that the registration of plaintiff's mark will cause confusion and mislead the public into belief that applicant's goods are manufactured by or sponsored by defendant in this action, and that such would damage defendant, is not damage of the character contemplated by statute, and the prayer for authorization of this court of [45] registration of plaintiff's mark must be granted, since toilet seat covers and grocery items are not goods of the same descriptive properties.

## XI.

Toilet seat covers, under the law, are not of the same descriptive properties as grocery items sold by defendant, such as paper towels or toilet tissues.

## XII.

It is not baldly the law that "all that is necessary is that the corporation (opposer) come into existence before the application to register by plaintiff is filed", in that the special circumstances of each case must be looked into, and the law of unfair competition should be considered and correctly applied in every case.

Dated this 18th day of June, 1947.

LOUIS E. GOODMAN,

United States District Judge.

[Affidavit of service by mail.]

[Endorsed]: Filed June 18, 1947. [46]

In the District Court of the United States for the  
Northern District of California, Southern Division

Civil Action No. 26230-G

WARREN W. DUNNELL,

Plaintiff,

vs.

SAFEWAY STORES, INC., a corporation of the  
state of Maryland,

Defendant.

### JUDGMENT

The above-entitled cause having come on regularly for trial, Honorable Louis E. Goodman, United States District Judge, presiding:

It is hereby Ordered, Adjudged and Decreed as follows:

#### I.

That this court has jurisdiction of the parties and subject-matter in this action.

#### II.

That the prayer of the complaint be, and the same is hereby granted, and the Commissioner of Patents is hereby authorized and directed to grant the registration requested [48] by applicant (plaintiff herein) Warren W. Dunnell, in application for registration, Serial No. 453,099, filed May 19, 1942.

## III.

That the prayer of defendant-counterclaimant in its counterclaim be, and the same is hereby, denied, and that said counterclaim be, and the same is hereby dismissed at counterclaimant's costs.

## IV.

That plaintiff herein recover his costs and taxable disbursements herein in the sum of \$116.14 and that execution issue therefor.

Entered this 18th of June, 1947.

LOUIS E. GOODMAN,  
United States District Judge.

Approved as to form as provided in Rule 5 (d).

MITCHELL T. NEFF,  
WILLARD S. JOHNSTON,  
ORRICK, DAHLQUIST, NEFF,  
BROWN & HERRINGTON,  
Attorneys for defendant-  
counterclaimant. [49]

(Acknowledgement of Receipt of Copy.)

[Endorsed]: Filed and Entered June 18, 1947.

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[Title of District Court and Cause.]

NOTICE OF APPEAL TO CIRCUIT  
COURT OF APPEALS

Notice Is Hereby Given that Safeway Stores, Incorporated, a corporation, Defendant and Coun-

terclaimant above named, hereby appeals to the Circuit Court of Appeals for the Ninth Circuit from the final judgment entered in the above entitled action on June 18, 1947.

Dated: September 15, 1947.

MITCHELL T. NEFF,  
WILLARD S. JOHNSTON,  
ORRICK, DAHLQUIST, NEFF,  
BROWN & HERRINGTON,  
Attorneys for Appellant.

[Endorsed]: Filed Sept. 15, 1947. [51]

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[Title of District Court and Cause.]

DESIGNATION BY DEFENDANT AND COUNTERCLAIMANT OF PORTIONS OF THE RECORD PROCEEDINGS AND EVIDENCE TO BE CONTAINED IN THE RECORD ON APPEAL

Comes now Safeway Stores, Incorporated, a corporation, Defendant and Counterclaimant above named, and having filed herein its Notice of Appeal to the Circuit Court of Appeals, hereby designates for inclusion and to be contained in the record on said appeal, the complete record and all proceedings and evidence in the above entitled action, including but not in limitation of the foregoing, all pleadings, the findings of fact and conclusions of law, the judgment, the opinion, all of the evidence received



at the trial of said action including [52] the testimony of the witnesses, depositions and other documentary and physical evidence, all exhibits except Exhibit N, the notice of appeal and the order dated September 16, 1947 for the transmission of exhibits to the Circuit Court of Appeals.

Dated: September 17, 1947.

MITCHELL T. NEFF,  
WILLARD S. JOHNSTON,  
ORRICK, DAHLQUIST, NEFF,  
BROWN & HERRINGTON,  
Attorneys for Appellant.

Receipt of a copy of the foregoing Designation is hereby admitted this 17th day of September, 1947.

JOSEPH F. WESTALL,  
EDWARD F. WESTALL,  
WESTALL AND WESTALL,  
CHARLES M. FRYER,  
By CHARLES M. FRYER,  
Attorneys for Plaintiff and  
Counterclaim-Defendant.

[Endorsed]: Filed Sept. 17, 1947. [54]

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[Title of District Court and Cause.]

### ORDER

Good Cause Appearing Therefor, It Is Ordered that the Clerk of the United States District Court

for the Northern District of California, Southern Division, transmit the following exhibits and other documentary and physical evidence and the reporter's transcript to the Clerk of the Circuit Court of Appeals for the Ninth Circuit for use and inspection by said Appellate Court in connection with the appeal in the above-entitled action, and that at the conclusion of the appeal that said exhibits and other documentary and physical evidence and said reporter's transcript be returned to the Clerk of this Court, to-wit:

1. Plaintiff's Exhibits through 6, both inclusive.
2. Defendant's Exhibits A, I, J, K, L, M, N, O, P, Q, R, S, U, V and X.
3. The photostatic copies of Defendant's Exhibits B, C, D, E, F, G, H, T and W that have been substituted for the originals of said exhibits pursuant to the orders of the above-entitled Court.
4. Deposition of Warren W. Dunnell taken in Los Angeles February 28, 1947.

Dated: September 17, 1947.

LOUIS E. GOODMAN,  
Judge of the United States  
District Court.

[Endorsed]: Filed Sept. 17, 1947. [55]

[Title of District Court and Cause.]

DESIGNATION OF PLAINTIFF AND COUNTERCLAIM DEFENDANT OF PORTIONS OF THE RECORD PROCEEDINGS AND EVIDENCE TO BE CONTAINED IN THE RECORD ON APPEAL

Defendant, Safeway Stores, Inc., has heretofore, on September 16 last, filed with the Clerk of the District Court its "Designation \* \* \* of Portions of the Record Proceedings and Evidence to be Contained in the Record on Appeal." While said designation appears to be of the whole record, in some respects it appears slightly ambiguous in that (while apparently implied) it has not specified clearly, particularly:

(1) Plaintiff's exhibit 1, certified copy of the application of Warren W. Dunnell, Serial No. 453,099, filed May 19, 1942, for registration of the trademark "Safe Way" as applied to toilet seat covers, together with paper No. 13 of said application, namely action of the Patent Office in passing for publication in the Official Gazette.

(2) Plaintiff's exhibit 2, certified copy of papers 1, 3, 5, 6, 7, 8, and 37 in Opposition No. 23,281, comprising:

- (1) Notice of opposition of defendant in this case, filed in the Patent Office on April 6, 1944, and its accompanying exhibits;
- (3) Patent Office notice of May 4, 1944, of said opposition;

- (5) Plaintiff-applicant's response to Office Action of May 4, 1944;
- (6) Patent Office action of May 20, 1944;
- (7) Plaintiff's answer to notice of opposition;
- (8) Office Action of June 6, 1944; and
- (37) Decision of April 24, 1946, of the First Assistant Commissioner of Patents, refusing applicant's request for registration.

(3) Plaintiff's exhibit 3, Patent Office certified [56] copy of the testimony for both plaintiff-applicant and opposer-defendant in this case taken in said opposition proceeding No. 23,281, together with each of the exhibits offered in evidence during the taking of said depositions.

We emphasize that each of these exhibits comprising, as they do, important evidence in support of the decision of the District Court appealed from, and necessary to be fully considered by the Court of Appeals (and pages of the printed record to be indicated), that each of said exhibits be printed in the record on appeal. We also must emphasize that we do not have copies of these from which to work, and would be seriously handicapped unless they are printed in the appeal record.

Dated this 24th day of September, 1947.

WESTALL & WESTALL,  
Attorneys for Plaintiff-  
Appellee.

By /s/ JOSEPH F. WESTALL.

We hereby certify that we have served the foregoing designation upon opposing counsel, Orrick, Dahlquist, Neff, Brown and Herrington, by mailing with postage fully prepaid to the address of said attorneys, 405 Montgomery Street, San Francisco 4, California, this 24th day of September, 1947.

WESTALL & WESTALL,

Attorneys for Plaintiff and  
Counterclaim Defendant.

By /s/ JOSEPH F. WESTALL.

[Endorsed]: Filed Sept. 25, 1947. [57]

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[Title of District Court and Cause.]

#### ORDER EXTENDING TIME TO DOCKET

Good cause appearing therefor, it is hereby Ordered that the Appellants herein may have to and including December 4, 1947, to file the Record on Appeal in the United States Circuit Court of Appeals in and for the Ninth Circuit.

Dated: October 24, 1947.

LOUIS E. GOODMAN,

United States District Judge.

[Endorsed]: Filed Oct. 24, 1947. [58]

District Court of the United States, Northern  
District of California

CERTIFICATE OF CLERK TO TRANSCRIPT  
OF RECORD ON APPEAL

I, C. W. Calbreath, Clerk of the District Court of the United States, for the Northern District of California, do hereby certify that the foregoing 58 pages, numbered from 1 to 58, inclusive, contain a full, true, and correct transcript of the records and proceedings in the case of Warren W. Dunnell, Petitioner, vs. Safeway Stores, Inc., a corporation, Defendant, No. 26230 G, as the same now remain on file and of record in my office.

I further certify that the cost of preparing and certifying the foregoing transcript of record on appeal is the sum of \$10.70 and that the said amount has been paid to me by the Attorney for the appellant herein.

In Witness Whereof, I have hereunto set my hand and affixed the seal of said District Court at San Francisco, California, this 2nd day of November, A.D. 1947.

[Seal]      /s/ C. W. CALBREATH,  
Clerk.



In the Southern Division of the United States  
District Court for the Northern District of  
California

Before: Hon. Louis E. Goodman,  
Judge.

No. 26230-G

WARREN W. DUNNELL,

Plaintiff,

vs.

SAFEWAY STORES, INC.,

Defendant.

### REPORTER'S TRANSCRIPT

Excerpt of Proceedings of March 12, 1947

Counsel appearing:

For plaintiff: Joseph F. Westall, Esq.

For defendant: Willard Johnston, Esq.

Mr. Westall: I offer as plaintiff's exhibit No. 1 a certified copy of the Application of Warren W. Dunnell, No. 453,099, filed May 19, 1942, for registration of the trade-mark Safe Way, as applied to toilet seat covers.

The Court: Any objection?

Mr. Johnston: I understand opportunity will be afforded to cross-examine on any of these exhibits.

The Court: Yes. The exhibit may be marked.

(Certified copy patent application #453099  
marked Plaintiff's Exhibit No. 1.)

Mr. Westall: We offer as plaintiff's exhibit No. 2 certified copies of Papers 1, 3, 5, 6, 7 and 37 in opposition No. 23281 comprising Notice of Opposition filed April 6, 1944, and its accompanying exhibits.

(Patent Office Record in Opposition—Safe Way marked Plaintiff's Exhibit No. 2.)

Certificate of Reporter

I, F. J. Sherry, Official Reporter, certify that the foregoing page 2 is a true and correct transcript of the matter therein transcribed as reported by me and thereafter reduced to typewriting, to the best of my ability.

/s/ F. J. SHERRY.

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Wednesday, March 12, 1947

10:00 o'Clock A.M.

The Clerk: Dunnell vs. Safeway.

Mr. Westall: Ready for Plaintiff.

Mr. Johnston: Ready.

(After opening statements the following testimony was taken.)

WARREN W. DUNNELL

called as a witness on behalf of the Plaintiff; and having been first duly sworn, testified as follows:

The Clerk: Will you state your name to the Court?     A. Warren W. Dunnell.

(Testimony of Warren W. Dunnell.)

Direct Examination

By Mr. Westall:

Q. Mr. Dunnell, I place before you a tabulation entitled "Safe Way Seat Cover—Number of Seat Covers Sold in Designated Territories" from the date of Plaintiff's Exhibit Q to the filing of the complaint in this case July 30, 1946, and I ask you if you prepared that statement?

A. This is not the exhibit I believe you referred to.

Q. Yes, I am referring to that now, because——

A. They are both the same.

Mr. Westall: Wait a minute. I didn't give you Exhibit Q. I thought I gave the Court Exhibit Q. I have a copy of it here and perhaps I can hand up this copy. [2\*]

Mr. Johnston: That is perfectly agreeable.

Mr. Westall: It is our office copy of the exhibit.

The Court: Do you wish the witness to look at this?

Mr. Westall: He knows what it is.

(Paper handed to witness by the Court.)

Mr. Westall: And Counsel has seen this exhibit before. It was taken from Mr. Dunnell's deposition.

Will you read the last question I put to the witness, please, Mr. Reporter?

(Question read.)

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\* Page numbering appearing at top of page of Reporter's certified Transcript of Record.

(Testimony of Warren W. Dunnell.)

Q. (By Mr. Westall) You keep all your records of your company, the Sani-Gard Company, do you not? A. I do.

Q. And prepared that statement from an examination of those records, did you not?

A. I have, yes, sir.

Q. Is that a correct tabulation of the number of Safe Way Toilet Seat Covers you have sold during the period from 1942, including 1946?

Mr. Johnson: Just a moment, I don't believe that is competent evidence at this time. In this case the Court is asked to reverse a decision of the Patent Commissioner on the basis of an application that was presented to the Patent Commissioner in 1942. In that case evidence was presented showing his sales and volume of business up to 1942. It does [3] not seem to me that since then and since the opposition it is material to show what business, if any, he has done since that time. That has no bearing whatsoever on the validity of the Patent Office decision.

Mr. Westall: You brought it out in the deposition.

Mr. Johnston: I brought it out for discovery, yes, but it hasn't any bearing here.

Mr. Westall: This is a trial de novo, and not an appeal. If it was an appeal Counsel would be correct.

The Court: It is a trial de novo, but I take it if there was a change of circumstance, or a factual change between the hearing before the Commissioner and the hearing before this Court, that that would

(Testimony of Warren W. Dunnell.)

not justify the Court, would it, in determining the matter differently than the Commissioner? While it is a trial de novo this Court does not act as a Patent Office examiner as if the matter were being for the first time presented here.

It is a trial de novo, but only in the sense that the Court can hear any other evidence that would be pertinent to the application that was pending before the Commissioner.

Mr. Westall: It is possible your Honor's view is correct, but we thought inasmuch as we had a right to file this case and anything subsequent to that time as showing wide distribution and good reputation, that he had in doing business——

The Court: You wish to show that the business of this [4] company has increased since the time of the application?

Mr. Westall: Yes, very much. In other words, it was only 72 million then that he sold. Now, it is 172 million to date and he had tried to do that and he had a perfect right to do it regardless of whether registration was granted. They have attacked inferentially and otherwise his good reputation for selling. That shows he has a good reputation and it shows the seat covers have a good reputation because of the vast number he has sold.

The Court: To that limited extent I will allow it. I think the objection might be technically correct, but for the limited purpose of showing there is a substantial business involved, I will allow it.

Q. (By Mr. Westall) You have testified in the

(Testimony of Warren W. Dunnell.)

opposition proceeding that during all the time you used Safe Way trademark as applied to toilet seat covers no instance of any confusion as to the source of manufacture, being you as the Sani-Gard Sales Company, has ever come to your attention. I will now ask you if any instance of any confusion as to the source of manufacture has ever come to your knowledge since the time of giving your testimony in the oppsition proceeding.

Mr. Johnston: Same objection.

The Court: Same ruling. The Court can consider any matters that reasonably bear even more recently on this matter.

Mr. Westall: That is true so far as our counter claim is [5] concerned. I didn't understand he was presenting his claim, his case on the counter claim now.

The Court: Now, you have asked him two questions and we have not had an answer to one of them yet. Will you read the first of the questions?

(Record read.)

The Witness: Yes, sir, this is a correct tabulation.

Mr. Westall: Now, will you read the last question I put to the witness?

(Record read.)

The Witness: There has never come to my attention any instance of confusion at any time since I



(Testimony of Warren W. Dunnell.)

have been in business with respect to the sales of Safe Way Seat Covers.

The Court: What do the sales amount to in dollars and cents in your business, annually, in the last two years?

The Witness: You are interested in that and we have given you the figure of seventy-three and a half million, but up to the time of this opposition proceeding that would come to about \$125,000,000.

The Court: So that the year in which you sold \$72,000,000 would amount to your volume of business in that year?

The Witness: That is correct.

Q. (By Mr. Westall): Do you own this business?

A. I am the sole owner of the business. [6]

Q. How long have you been engaged in that business? A. Since 1931.

Q. That is exclusively your business, manufacturing and selling these seat covers?

A. That is my entire business.

Q. And you are the sole owner?

A. I am the sole owner of the business.

The Court: I will take an adjournment until two o'clock.

I don't want you to think I am trying to hurry you unduly in this case, but I don't see that any purpose would be served in Counsel reading to the Court these long records. If there is any particular evidence to look at, or if it is necessary for me to read all of it, I will do so, but it will be unduly

(Testimony of Warren W. Dunnell.)

wasteful of the Court's time to read all of this record during court hours.

As I see it, there is not very much factual dispute, so if Counsel can present this afternoon the additional testimony, we can consider the proper way of submitting the matter.

I just wanted to make it clear to you that I am not intending to cut off either side from presenting anything they want, but I am trying to find a way of doing it without unduly wasting time.

Mr. Westall: I think in making my opening statement I believe I cited controlling circumstances which could be stated very briefly in a very few pages. The entire contents could [7] be stated in a few pages.

Mr. Johnston: Of course, how much additional testimony Counsel has, or how long his case will take, I don't know, but I have one witness who is scheduled to be in Los Angeles tomorrow. I would like to have him heard today so that he can get away.

The Court: I will hear him this afternoon.

(Thereupon an adjournment was taken until two o'clock p.m.) [8]

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Afternoon Session, March 12, 1947

2:00 o'Clock P.M.

The Court: Proceed.

Mr. Westall: I would like to have Mr. Dunnell

take the stand. There are just a few questions that I want to ask, formal questions in proof of allegations of the complaint which have been denied.

The Court: Very well.

WARREN W. DUNNELL

recalled on behalf of the plaintiff; and having been previously sworn, testified as follows:

Direct Examination

(Resumed)

By Mr. Westall:

Q. I don't believe you stated your residence?

A. I am a resident of Los Angeles, California.

Q. You are a citizen of the United States, are you not?

A. Yes, I am.

Q. And you are the plaintiff in this case?

A. I am the plaintiff in this case.

Q. You were a part to the opposition proceeding No. 23,281 in the Patent Office, were you not?

A. Yes, sir.

Q. Since giving your testimony in said opposition proceeding, has any instance come to your knowledge that anyone has ever mistaken the source of manufacture and of the distribution [9] and sale of your toilet seat covers?

A. There has never come to my knowledge that anyone has ever mistaken that, but what Safe Way Covers were manufactured and originated by myself as the Sani-Gard Sales Company.

Q. Since giving your testimony in Opposition Proceeding No. 23,281, have you ever sold seat

(Testimony of Warren W. Dunnell.)

covers under the trademark Safe Way to any other than the special class of purchasers mentioned by you in your testimony in said opposition proceedings in evidence?

A. It has always been the same class of customers.

Q. What has been your reputation as a distributor of toilet seat covers under the name Safe Way since you first adopted that name and up to the present time?

Mr. Johnson: I object to that as calling for the opinion and conclusion of the witness and as being self-serving testimony.

The Court: What is the importance of that?

Mr. Westall: We have asserted he has a good reputation and they have asserted or implied they have a good reputation in the distribution and we are trying to trade on their reputation, and we want to show we have a good reputation.

The Court: That is the only purpose?

Mr. Westall: Yes.

The Court: I will overrule the objection.

The Witness: My reputation I think is a very good one. I never had any complaints about the manner in which I have [10] conducted my business and I think the fact that I have sold as many as seventy-three and a half million covers since 1933 up to the time of the opposition in a way speaks for itself as showing that I have a good reputation in the manufacture and distribution of that cover under the name Safe Way.

(Testimony of Warren W. Dunnell.)

Q. (By Mr. Westall): Did anyone ever complain to you as to the quality or character of that product sold under the name Safe Way?

A. I never had any complaint about my Safe Way product.

Q. In Paragraph 9 of your verified complaint you allege your reputation in the sale of toilet seat covers under the trademark Safe Way as compared to any reputation the defendant may have is 73,567,000 to nothing. Will you please explain a little more fully what you meant by such a statement and state whether it is true.

Mr. Johnston: That is purely speculative and the question is founded on a fallacy.

The Court: That is argumentative.

Mr. Westall: I know, but we have made the allegation.

The Court: Irrespective of that, I don't see how that aids the Court: I can calculate that if the plaintiff sold seventy-three million and if the defendant has sold nothing, that that is the case.

Mr. Westall: That is what I think, but I wanted to be sure it was in evidence, or would be assumed or would be taken [11] judicial notice of by the Court.

Q. What do you understand the nature of the reputation of the defendant to be from any personal observations in the distribution of products sold by them?

Mr. Johnston: I object to that.

The Court: What is the importance of that?



(Testimony of Warren W. Dunnell.)

Mr. Westall: They are insisting they have a very good reputation and we were injuring the reputation.

The Court: Suppose we grant both sides have good reputations, would that make any difference?

Mr. Westall: Yes, because he wouldn't have any reputation, good or bad, in selling a product they ever sold. They couldn't have a good reputation in the sale of a product if they never sold or never had anything to do with the product Mr. Dunnell handles.

The Court: Of course, the Court can draw that conclusion.

Mr. Westall: Yes, and the Court can draw the conclusion that any good reputation they have refers to the——

The Court: I don't think those questions are involved in the factual pictures here, are they?

Mr. Westall: I think that many of these things can readily be inferred from the evidence.

The Court: I think you can make your argument as to these matters.

Mr. Westall: If there are sufficient facts before the [12] Court—I made allegations and they are denied and my only purpose was to ask these questions for that purpose.

The Court: Are there any other questions you have in mind?

Mr. Westall: I now withdraw the question.

Q. To your knowledge, has the defendant in this case ever, not having any such product as your



(Testimony of Warren W. Dunnell.)

Safe Way covers to sell, expressed a desire to sell that product?

The Court: I thought the statement was made by Counsel that the Safeway Stores do not sell that.

Mr. Johnston: That is correct.

Mr. Westall: And furthermore, never expressed any desire to sell.

The Court: You have already offered in evidence some letters in which the company stated it was not interested in selling.

Mr. Westall: Yes, we have, and there may be several.

Q. Did the defendant in this case or any of its subsidiary stores ever at any time since you began the use of the name Safe Way, complain to you or object to such use on any ground whatsoever?

A. I never had any complaint from Safeway Stores.

Q. Do you know whether or not the defendant in this case had any notice prior to the opposition proceeding heretofore referred to of your extensive use of your trademark so applied? [13] If so, please explain.

A. Yes, they had notice along the lines of this distribution of my Safe Way covers in this territory, San Francisco and Oakland, as well as other parts of the country, by reason of the fact that I installed these Safe Way covers in public restaurants, and many other places; and also in one instance in Los Angeles one of the jobbers that I dis-

(Testimony of Warren W. Dunnell.)

tributed Safe Way covers to made a request I go out and install some of my Safe Way covers in one of their subsidiaries.

Mr. Johnston: Just a minute, Mr. Dunnell, excuse me for interrupting, but I must object to this entire answer as not responsive to the question. He is giving a long speech and is proceeding with general and vague statements as to what we might have notice of.

Mr. Westall: But I said, "If so, please explain," and he is explaining.

The Court: Did you ever have any communication with any officers or representatives of the Safeway Company with respect to your product?

The Witness: Through one jobber in Los Angeles I installed some of my equipment and the covers in one of their subsidiary companies, as I understand it, the company being the Lucerne Creamery and Butter Company.

Mr. Johnston: I will ask that that answer be stricken unless the details as to the time and place and on whose order, [14] and where it was installed, are given.

Q. (By Mr. Westall): Did you actually install those yourself in this subsidiary company of the defendant corporation in this case. A. I did.

Q. And they were labeled "Safe Way Cabinets" and you sold them as "Safe Way Cabinets" and "Safe Way Covers" for use in the cabinets?

A. I didn't make the sale directly myself, but it was done by one of my jobbers.

(Testimony of Warren W. Dunnell.)

Q. But you installed them?

A. They called and requested I make the installation because the Lucerne were having difficulty in getting the cabinets mounted on the wall.

The Court: When was this?

The Witness: This was prior to filing the opposition, as I remember, in 1941 or 1942.

The Court: Is this matter covered in the record?

Mr. Westall: No, that isn't covered in the record.

Q. Are you and have you been dissatisfied with the decision of the Commissioner of Patents on his refusal to grant your application for the registration of the trademark Safe Way as applied to toilet seat covers?

A. No, I have not been satisfied.

Q. Did you appeal to the United States Court of Customs and [15] Patent Appeals from said decision with which you were dissatisfied?

A. No, I didn't appeal to that court. On the other hand I filed this action in this court.

Q. You elected to file this suit instead of filing the appeal?

A. I so elected.

Q. Did the denial of your application for registration of the trademark Safe Way as applied to toilet seat covers injure you in any way, and if so, please explain?

Mr. Johnston: I object to that as leading and I also object on the ground it calls for the conclusion and opinion of the witness.

(Testimony of Warren W. Dunnell.)

The Court: What is the competency of that?

Mr. Westall: What we want to show and what we think the Court will take judicial notice of when we come to arguing the case is that denial of registration is the denial of a distinct right of ours as granted under the constintution.

The Court: The law gives a man a right to register a trademark. He doesn't have to make any further showing than he is entitled to registration.

Mr. Westall: That is true, but we want to show the Court simply that he had been prohibited from marking his product "Trade-mark Registered under the Federal Laws".

The Court: I will take judicial notice of that.

Mr. Westall: And also he would be excluded [16] from access to the Federal Courts where we usually get better justice than we do in the state courts.

The Court: We thank you for the compliment, but I think that is unnecessary as an evidentiary matter. If Plaintiff is entitled to have this trade-mark registered the Court will decide in his favor irrespective of whether it carries benefits with it or not. I don't see how this is evidentiary matter, Counsel.

Mr. Westall: It runs into argument, I will admit, and it is pretty hard to distinguish between what the Court will take judicial knowledge of in a trial de novo and on appeal.

Incidentally, I found Exhibit Q here.

Q. Will you please state if you know, the amount of capital invested by you in the promotion, ad-

(Testimony of Warren W. Dunnell.)

vertising and sales of your Safe Way Seat Covers during the time you first adopted and used that name?

A. That amounts to approximately \$20,000. The exact figures as I took them off of my books were \$19,732.92.

The Court: Do you manufacture the covers yourself?

The Witness: Yes.

The Court: And you distribute them after you manufacture them?

The Witness: Yes.

Q. (By Mr. Westall): Where is that manufacturing plant.

A. In Los Angeles. [17]

Mr. Westall: Plaintiff rests.

(Plaintiff Rests)

### Cross-Examination

By Mr. Johnston:

Q. Mr. Dunnell, when did you make this installation in the Lucerne Creamery?

A. My recollection of it was approximately 1942, the first part, I think, and it was in January or February or March of 1942.

Q. When did you last check about the date of it?

A. At the time of the filing of this opposition some questions arose as to how I might have—whether I had sold my Safe Way Seat Covers to the Safeway Stores and I remembered that particular instance, so I got in contact with the Ingraham Paper Company of Los Angeles.

(Testimony of Warren W. Dunnell.)

Q. When?

A. At the time the opposition was filed to this case.

Q. January in 1942? A. Or 1944.

Q. The opposition was filed in 1944?

A. That's correct.

Q. And that is when you last examined into this matter? A. That's right.

Q. And you haven't checked into any records since then to see when that was?

A. I checked it at that time.

Q. And you are not sure whether it was 1941 or 1943 or 1942, [18] as a matter of fact, are you?

A. I am sure it was the first two or three months of 1942.

Q. You are sure it was the first two or three months of 1942 and not the sixth or seventh months?

A. My recollection is that it was in the month of March.

Q. Where was this installation made?

A. In the Lucerne Creamery and Butter Company on the corner of Alameda and Vernon Avenue in Los Angeles.

Q. What did the installation consist of?

A. It consisted of maybe six to eight of my Safe Way Dispensing Cabinets.

Q. Did you install them yourself?

A. Yes, sir.

Q. At that time? A. Yes, sir.

Q. Do you know whether they are there now?

A. I do not know.



(Testimony of Warren W. Dunnell.)

Q. You did that personally yourself?

A. Yes.

Q. Did you talk to anybody at the Lucerne at the time? A. Oh, yes.

Q. Who did you talk to?

A. I had to find the janitor or the superintendent, or whatever he was called, in charge of the building and have him point out the rest rooms where they wanted to put them. [19]

Q. Did you have any discussion there at that time with respect to the use of the name Safe Way?

A. None at all.

Q. None at all with anybody?

A. None at all with anybody.

Q. And you talked to the janitor about the matter? A. That's right.

Q. And the name appeared on these dispensing cabinets you installed just as it appeared on the sign out in front, is that correct?

A. I don't know what you refer to.

Q. Wasn't the name "Safeway" elsewhere in the place?

A. No, my recollection is that it was the Lucerne Creamery.

Q. You don't recall whether it had the name "Safeway" out there?

A. No, I don't recall it did.

Q. Will you give us a breakdown of this item of some \$20,000 of advertising expense?

A. Yes, there are two parts to that expenditure; part of it was for literature, catalog matter, adver-

(Testimony of Warren W. Dunnell.)

tising and trade papers, and directories, and things of that kind; and another part was for travelling expenses throughout the country to promote the sale of the product.

Q. How much was for the first part, that is, literature and circulars and letters, and so on? [20]

A. It was between five and six thousand dollars, that part of it, and the balance was for travelling expenses.

Q. The balance was for travelling expenses?

A. Yes, sir.

Q. That is, about \$15,000 was for your travelling around the country promoting the sale of your product.

A. That's correct.

Q. Your train fare, for example?

A. That's correct.

Q. And your gasoline bill? A. Yes, sir.

Q. That kind of thing? A. Yes, sir.

Mr. Johnston: I think that's all.

### Redirect Examination

By Mr. Westall:

Q. The cabinets you installed for the company you referred to contained your toilet seat cover marked Safe Way, did they not?

A. The toilet seat cover?

Q. Not the toilet seat cover alone marked with it, but the band on them, around your product?

A. The toilet seat covers had been delivered by the jobber as well as the dispensing cabinets, and I

(Testimony of Warren W. Dunnell.)

went out and lent my help and instructed them, telling them how to put the dispensers in. [21]

Q. You saw those fillers at the time you were there marked with your trademark Safe Way, as you have described? A. Yes.

Mr. Westall: I believe that's all.

### Recross-Examination

By Mr. Johnston:

Q. What period of time is covered by that advertising expense you mentioned?

A. From 1933 to the present time.

Mr. Johnston: That's all.

Mr. Westall: That's all.

The Court: That's all.

### DRUMMOND WILDE

called as a witness on behalf of the defendant out of order; and being first duly sworn, testified as follows:

The Clerk: Will you state your name to the Court? A. Drummond Wilde.

Mr. Johnston: Before I proceed with this witness, your Honor, there is one matter I should have mentioned. I will wish to call Mr. Dunnell further in our affirmative defense, and I was simply questioning him with regard to one or two matters, but I wanted to get on with this witness now as quickly as possible.

The Court: Very well. [22]

(Testimony of Drummond Wilde.)

Direct Examination

By Mr. Johnston:

Q. What is your position with Safeway Stores?

A. I am a lawyer in charge of the legal department of the Oakland office, or the head office.

Q. That is the head office, is it not?

A. Yes.

Q. How long have you been with the company?

A. I have been with the company and its predecessor since February of 1931.

Q. Will you indicate very briefly to the Court the history of the company?

Mr. Westall: That is objected to. It is really covered in the depositions that were heretofore taken. Mr. Wilde testified and they produced the corporation papers and various papers and amplified it very thoroughly in the depositions now in evidence.

Mr. Johnston: If the Court please, it was my thought that the very quickest and simplest manner of getting this picture before the Court was in this fashion.

The Court: It is a very brief statement. I will overrule the objection.

The Witness: Safeway Stores, Incorporated, a Maryland Corporation, which is the defendant in this action, was organized in 1926 for the purpose of taking over two retail [23] operations, retail grocery operations. From 1926 until the end of 1942, with an exception which I will mention in a few

(Testimony of Drummond Wilde.)

moments, all operations of the Safeway organization in this country as well as those in Canada were carried on by wholly-owned subsidiaries. The operations consisted of primarily the retail grocery store business with related distribution and manufacturing facilities as well as procurement or buying facilities.

In 1941 the defendant commenced operating stores in Utah which were taken over from other of its subsidiaries at that time. In the same year the company took over the operations of two chains in the east coast and New York City area and New Jersey area.

Later in 1942 the current company, which is a Maryland company, took over the retail operations of one of the subsidiaries in Arkansas and Oklahoma. At the end of 1942 all United States retail subsidiaries and all United States wholesale and manufacturing subsidiaries with one exception were dissolved and liquidated and their operations including goodwill and trade-marks and trade names were transferred to the Maryland company, the defendant in this action, and since the end of 1942 the Maryland company has conducted all retail operations in this court, which are located in approximately twenty-three states and the District of Columbia.

In the meantime the Canadian operations which are conducted [24] through Canadian subsidiaries have been conducted, and they are still conducted by those Canadian subsidiaries.

(Testimony of Drummond Wilde.)

Q. (By Mr. Johnston): What products in general are handled by the company?

A. The retail stores handle the usual grocery items, such as canned goods, coffee and tea, tobacco and tobacco products, and candy, dried foods, dairy products, eggs, beverages, produce, meat, poultry, as well as a number of household items which are generally as follows:

Light globes, matches, paraffine wax, brooms, clothespins, floor waxes, furniture polishes, glass cleaners, insecticides, metal polishes, shoe polishes, toothpicks, brushes, mops, oyster pails, paper trays, razor blades, shopping bags, and paper products, such as drinking cups, paper bags, paper napkins, paper towels, facial tissue, toilet tissue, wax paper and sanitary napkins.

Q. What are the principal manufacturing businesses engaged in by the defendant?

A. The slaughtering of meat and packing of meat products. Wait, before I go into this, I want to be sure you don't want me to include any of the subsidiaries. My hesitation is due to trying, your Honor, those cases in which only the subsidiaries may engage in these particular operations.

Q. Yes, I want you to include the subsidiaries also.

Mr. Westall: We might object to that question on the [25] ground that the manufacturing activities are not material at all.

The Court: I would rather have some knowledge of the nature of the business of the defendant. I



(Testimony of Drummond Wilde.)

don't see how it could be harmful to you. Objection overruled.

Mr. Johnston: It is our point that our business is so complete and full that "Safeway" means this operation.

The Witness: The slaughtering of meat and packing of meat products, processing or packing of shell eggs and frozen egg products, the processing of fresh fish to frozen form, the packing of canned meal, the processing and packing of poultry, roasting and packing of coffee, and the packing of tea, and in some cases the packing of produce where we get it in the bulk and repack it in the smaller containers, the manufacture of bread and bakery products such as cake and cookies. Also, the manufacture of crackers, gelatin, desserts powders, the processing of butter, the processing and bottling of fluid milk, cream, cheese and other dairy products; the manufacture and bottling of soft drinks. The packing of canned fruits and vegetables in hermetically sealed containers; the manufacture of salad dressings, peanuts butter, and food flavorings, syrups and manufacture of candy bars.

Mr. Westall: We move to strike that answer as all totally incompetent, irrelevant and immaterial to any issue in the case. [26]

The Court: Denied.

Q. (By Mr. Johnston): Mr. Wilde, how is the word "Safeway" used in the company's business?

A. The name "Safeway" is used to a large extent alone to designate the company and particu-

(Testimony of Drummond Wilde.)

larly the retail stores which are operated by the company.

Q. Will you state what you mean when you say "alone"?

A. Just the word "Safeway" appears on store signs, the outside of the stores, and it appears in newspaper advertising. It was used in radio advertising which is sponsored by the company or its subsidiaries. It advertises those products—advertised on billboards, cards and to some extent in handbills, but to a very minor extent, and in general, through the usual forms of advertising media.

Q. Mr. Wilde, do you have with you any sample items of this type that you have mentioned that appeared in the Los Angeles publications during the 30's?

Mr. Westall: If the Court please, we have a whole bale of those newspaper advertisements in evidence at the taking of the deposition in the Patent Office, a great big envelope full of them, and it seems to me this is unnecessarily repeating and repetitious.

Mr. Johnston: If your Honor please, in response to the objection that this is repetitious, it is quite true that newspaper items were introduced in the Patent Office proceeding. [27] If Counsel will stipulate the same general type of ad we want to show was run during the earlier period which is important as showing notice of our use to this defendant which I think he denies in this case, I am perfectly agreeable to not offer any further ads.

(Testimony of Drummond Wilde.)

Mr. Westall: If the witness will state that is the fact, we can probably accept that without introducing it.

Q. (By Mr. Johnston): You have seen the sample ads that were introduced on the taking of the deposition of Mr. Selby—by the way, as a matter of fact, you conducted that examination as attorney for the company? A. Yes.

Q. Are those representative of the advertisements that appeared during the 30's?

A. Do you want me to take one of them or go through all of them?

Q. Can you state on the basis of your recollection whether that is true?

A. In general there was a variation, I believe, in the early 30's.

Q. Will you state what that was?

A. The variation was that in a number of cases the statement on the ad which on this particular ad which is Opposer's Exhibit No. 12, the signature reads "Safeway". On some of the earlier ads the signature read "Safeway Stores". *newspapers* [28] and reproduction of the ads I have with me indicate that the word "Safeway" alone was used at times in the body of the ads.

Q. What were the principal forms of advertising media used by the company?

A. In what period?

Q. During the 30's.

A. Newspaper advertising which includes daily papers as well as weekly papers, farm papers and

(Testimony of Drummond Wilde.)

magazines, "The Family Circle" magazine, which was the magazine which was distributed in our stores free of charge—and radio. We have had several radio programs in the early 30's which Safeway sponsored.

Q. Were there any of those programs released in Los Angeles?

A. The records which were furnished to me indicate they were broadcast over stations in Los Angeles as well as elsewhere.

Q. Los Angeles and San Francisco?

A. Yes.

Q. And other communities?

A. Well, not over the entire organization.

Q. Can you indicate where they were released?

A. There was one broadcast, one program that was broadcast in November, 1930, to May 15, 1931, released over Station KGO, San Francisco, KFI, Los Angeles, KTAR, Phoenix, KOMO, Seattle, KSL, Salt Lake City, KOA, Denver, KFSD, San Diego, and KGW, Portland. [29]

The Court: Counsel, there is no dispute, is there, that these Safeway Stores go by the name of Safeway and they are widely advertised?

Mr. Johnston: I understand there is a dispute as to the meaning of the word "Safeway" as meaning the defendant corporation and that is what this proof is directed to in part.

The Court: Are there any Safeway stores in Los Angeles?

A. Yes.

The Court: A number of them?

A. Yes.

(Testimony of Drummond Wilde.)

Q. (By Mr. Johnston). Approximately how many, if you know?

A. My recollection is in the neighborhood of two hundred.

Q. At the present time?

The Court: I didn't quite understand what you meant when you said there is a dispute as to the meaning of the word.

Mr. Johnston: It is one of our basic contentions in this case that the word "Safeway", your Honor, by reason of our extensive use of it has come to mean Safeway Stores, Incorporated, to the public. It has a secondary meaning. It means, first, it is a safe way—two words; then the combination of the word "Safeway" means the defendant corporation. That is our purpose.

The Court: It is identified with the business of the defendant corporation? [30]

Q. Exactly, and the cases say and the statute says and the Trademark Act says if that is the case then no one else may register the name.

The Court: Even in some other business that has no connection with the business your plant is in?

Mr. Johnston: Yes, for example, a case in point is that of Radio Corporation of America vs. Rayon Corporation of America. In that case Rayon Corporation applied to register the initials "RCA" for a RCA fabric which they were turning out, a textile material. Radio Corporation of America came in just as Safeway comes in with this case and opposed the registration on the ground that "RCA" meant



(Testimony of Drummond Wilde.)

“Radio Corporation of America.” The case was tried in the Patent Office and was appealed to the Court of Customs and Patent Appeals, the Appellate Court in this matter, and that Court held that the evidence showed that RCA by reason of the extensive use in advertising of the name over a period of years by Radio Corporation of America had come to mean to the public “Radio Corporation of America”, and for that reason the name could not be registered under the Trademark Act as “RCA Fabric” for a textile material, even though there was no similarity whatever between textiles and radios.

The Court: I can understand the opinion in that case as applying to the use of special letters, but so far as the [31] use of ordinary words is concerned, are there decisions that hold to that effect?

Mr. Johnston: Yes, your Honor, but there is no word “Safeway”. The word “Safeway” doesn’t appear in the dictionary. “Safeway” is a fanciful combination which is like RCA”.

The Court: But in this diagram which has been handed to me there are two words used, “Safe” and “Way”, and they are separate on this, what I assume from what you gentlemen say, diagram of a toilet seat cover.

Mr. Johnston: Apparently——

The Court: Isn’t that a little different than the situation where there is the use of a well-known symbol of a company such as RCA?

Mr. Johnston: I think not. That point was made



(Testimony of Drummond Wilde.)

and considered in the Patent Office and it was held that the use of those two words in combination by reason of their specified use of those words, which means us, is unfair to us and in violation of the statute when they seek to do that.

The Court: It looks to me like this entire matter is nothing more than a legal question. You have a record showing the nature of the business of the defendant and the nature of the business of the plaintiff and the nature of the trademark and what it is used for and how the defendant conducts his business. It seems to me it is purely a legal question.

Mr. Johnston: Except we [32] are trying to prove the issue which is, as I understand it, that "Safeway" means us. That is the point, and that, I take it, is a fact, and I understand Counsel does not concede that.

Mr. Westall: No, I don't concede that, and neither do I concede Counsel's application of the decisions. We will have decisions, too.

The Court: We will have to argue that.

Mr. Westall: Yes, we will have to argue that, rather than take up the time of the Court now.

The Court: I only interrupted now because it looked to me like the number of documents the witness has with him would mean that he was going into many matters that are not in dispute.

Mr. Johnston: I wanted to get the picture before the Court, the great lengths to which we have gone in our program to give that meaning to the term

(Testimony of Drummond Wilde.)

“Safeway” as applied to Safeway Stores, Incorporated.

The Court: All right. I will have to interrupt this case for a few moments to settle a matter in connection with a jury I have out in another case.

(Recess.)

The Court: You may proceed.

Q. (By Mr. Johnston): You mentioned one program that came [33] from Los Angeles.

A. Yes.

Q. And there were other programs?

A. There were other programs. Another program sponsored by Safeway, according to our records, was broadcast in 1933, commencing about February or March and going through November.

Q. What was the name of that program?

A. The title of that program was “Safeway to Happiness,” and it featured Eddie Peabody.

Q. Do you have a sample of one of those programs?

Mr. Westall: We object, incompetent, irrelevant and immaterial.

Mr. Johnston: Your Honor, I haven’t yet offered it or shown what it was—what I proposed to do.

The Court: All right.

Mr. Johnson: I ask that this be marked for identification.

(Testimony of Drummond Wilde.)

(The transcript of radio program was thereupon marked Defendant's Exhibit A for Identification.)

Q. (By Mr. Johnston): I show you, Mr. Wilde, Defendant's Exhibit A for Identification, and I ask you if that is a transcript of the Eddie Peabody program as given on Friday, November 3, 1933?

A. It is, according to the information received by me from our advertising department.

Q. According to the information you received from the advertising department and their records?

A. Yes.

Q. And these records are kept in the regular course of business?

A. It may have come from the broadcasting company records. They retain scripts of the programs.

Mr. Johnston: I will offer this exhibit in evidence as a representative and sample and type of radio program given by the company at that time.

Mr. Westall: It is objected to as incompetent, irrelevant and immaterial to any issue in the case.

The Court Is this a part of the record, or is this in addition thereto?

Mr. Johnston: This is in addition and I might say I have here a copy of it and your Honor will see that the word "Safeway" was used throughout the program alone and without reference to the "Stores" or the "Inc.". It was advertised and presented as Safeway's program, and that is our purpose in offering it at this time.

(Testimony of Drummond Wilde.)

The Court: All right, let it be admitted.

(The document in question, previously marked Defendant's Exhibit A For Identification, was thereupon received in evidence.)

The Court: Can't you shorten this by some general question [35] that the company conducted radio broadcasts referring to the stores as "Safeway"?

The Witness: Yes.

Q. (By Mr. Johnston): What were the principal media used?

A. Those which I named a few moments ago.

Q. Have you yourself made any observations of the use of the name "Safeway" to identify the defendant organization by members of the public not connected with the defendant organization?

A. On the course of my activities both here and outside of town I have had occasion among strangers to identify myself when I have been asked with whom I work and with whom I am connected in a business way and I generally answer the inquiries by saying, "I am with Safeway". In those cases, generally speaking, there was no further information as to the name of my employer.

Q. As far as you can tell, they understood what you meant by "Safeway"? A. Yes.

The Court: I am sorry, gentlemen, I will have to interrupt this case again. I have a jury coming in on another case on trial.

(Recess.)

The Court: You may proceed.

Mr. Johnston: As I mentioned this morning, I have a [36] witness, Mr. Knight, and may I withdraw Mr. Wilde temporarily and put Mr. Knight on?

The Court: Yes.

JOHN B. KNIGHT,

called as a witness on behalf of the defendant; and having been first duly sworn, testified as follows:

The Clerk: Will you state your name to the Court?           A. John B. Knight.

Direct Examination

By Mr. Johnston:

Q. Your residence, Mr. Knight?

A. 1009b North Glendale Avenue, Glendale, California.

Q. What is your business?

A. Market and consumer research.

Q. With what company are you associated?

A. Knight and Barker.

Q. Is that connected with Safeway Stores, Incorporated?           A. Not in any way, sir.

Q. How long have you been in that business?

A. Since 1938—about nine years.

Q. Will you tell the Court very briefly what kind of work you do in your business?

A. Our business is to inquire into the habits and understanding of people with regard to consumers'

(Testimony of John B. Knight.)

goods in the case of brand preference or where they purchase their merchandise in [37] the case of stores, what they think about a product, or what they think about an idea, and from and by means of a representative cross-section we bring back a report which is representative of the entire population in this study.

Q. Could you indicate the kind of clientele you have?

A. We serve the Bank of America, the Sunset Magazine, the Scripps-Howard newspapers, particularly the San Francisco News in San Francisco, the Pacific Gas and Electric Corporation, Sparkettes Bottling Company and many other corporations, large and small—primarily business houses, however.

Q. Have you been employed by Safeway?

A. We have.

Q. To perform a job? A. We have.

Q. And what was that job?

A. We were asked to perform a public opinion survey or to determine what the people understand the name "Safeway" to mean.

Q. Where? A. In Los Angeles County.

Q. When was this employment?

A. The latter part of November of 1946.

Q. Did you accept that engagement?

A. We did.

Q. Will you state generally how your survey is conducted? [38]

A. The first step of the performance of the sur-



(Testimony of John B. Knight.)

vey is the preparation of a questionnaire which will yield the information required on the particular point involved. After we have prepared the questionnaire we decided arbitrarily the number of interviews which we believe would be required, and we use as a method of arbitrary measurement a chart like this, a statistical chart published by the Fellows of Harvard University. This is a copy of that chart which tells us the number of interviews we have to make to obtain a maximum margin of error, or whatever percentage our client desires.

Mr. Johnston: I ask this chart be marked for identification.

(The chart in question was thereupon marked Defendant's Exhibit B For Identification.)

Q. (By Mr. Johnston): The chart we have just referred to for identification as Defendant's Exhibit B, is the basis on which you determine the number of questions that must be asked?

A. The number of respondents we must seek.

Q. Yes.

A. This is a 'rule of thumb' measurement. I will describe the statistical principle used in deciding the method. This is a chart telling our client how many interviews and the calls. After we have determined the number of interviews we are going to make in a given area, as Los Angeles, we [39] proportion each of the interviews with each of the marketing areas in exact proportion as the population, or each interview or marketing area as they

(Testimony of John B. Knight.)

bear, the relationship they bear to the total population. That gives us a proper distribution of our interviews.

Mr. Johnston: I ask this be marked as Defendant's Exhibit next in order for identification.

(The map of Los Angeles County was thereupon marked Defendant's Exhibit C For Identification.)

Q. (By Mr. Johnston): Now, I hand you Exhibit C For Identification and I ask you what that is.

A. This is a map of Los Angeles County which is identical with the market area map published by the Regional Area Planning Commission of Los Angeles.

Q. That is the map that is the basis of the survey you are about to describe? A. Correct.

Q. Will you proceed?

A. After the questionnaire is prepared and the map and the distribution of the interviews is determined on, we call in our interviewers, some of whom we have employed on a full-time basis and others we draw from a common pool used by other people in the same business as us and we carefully train them on the use of the questionnaire they are to use in the field. In no case are these people given the name or [40] allowed to learn the identity of the client, for the reason that that would suggest a bias to the interviewer and give him a personal reason, perhaps, or allow him to pass that information on to a

(Testimony of John B. Knight.)

respondent who might bias his reply, so the identity of the client remains absolutely anonymous as far as the interviewer is concerned and also, of course, in the case of the respondent.

Q. Are the interviewers told the purpose of the inquiries, or which are relevant to the survey and which are not?

A. No, they are not told the purpose of the survey in any manner, shape or form. They are instructed to use an individual questionnaire for each respondent and to read from the questionnaire at every time they make an interview and not to differentiate in any manner, shape or form from the actual printed questionnaire.

Mr. Johnston: I would like to have that copy of the questionnaire marked as Defendant's Exhibit in order for identification.

(The document in question was thereupon marked Defendant's Exhibit D For Identification.)

Mr. Johnston: I would like to hand this to your Honor, if I may.

Q. You may continue, Mr. Knight.

A. When the interviewer takes the field he is assigned a given area as delineated on the map and is given written [41] instructions as to the number of interviews he is to make in that particular area.

Q. You are referring now to the map, Defendant's Exhibit C For Identification?

A. Yes, and on top of his interviews which he is

(Testimony of John B. Knight.)

to make is a control sheet that describes the nature of the interviews he is to make. In other words, we don't send them out to just interview 45 people in any given area. They are to get so many men in each area, and so many women in each area, so many men in each income group and so many men in each occupational group; and the same goes for the women there, and a certain number of women in each income group within certain age brackets.

Q. How do you decide how many men and women, and the income groups, and so on?

A. We use the information provided us by statistical authorities, like the Department of Commerce Bureau of Census, or the Regional Planning Commission of Los Angeles that tells us how many people within each group reside in a certain area as indicated on the map, your Exhibit C, and how many people within each age group and how many people within each income group, as far as the statistical information of those various sources goes.

Mr. Johnston: May I have this document marked as Defendant's Exhibit E For Identification? [42]

(The document entitled "Control Sheet" was thereupon marked Defendant's Exhibit E For Identification.)

Mr. Johnston: This control sheet, Defendant's Exhibit E For Identification, is what you have just been referring to?

A. Yes. So, contrary to some popular misconceptions, the interviewer does not take the field

(Testimony of John B. Knight.)

looking for a particular name, by name and address, but rather by description.

Q. In other words, if I understand you correctly, you have ascertained what the population is according to the latest census material of a particular area, Los Angeles, for example, and then you plot that out by sections and put those sections down by population as shown by the census?

A. That's correct.

Q. And you determine as shown by the census the number of male and female and age groups and income groups in those particular areas?

A. Census and other sources, such as the Regional Planning Commission or other reliable sources. When the interviewer has taken the field, he uses the control sheet that is Exhibit E. This is a manual means for them not only in describing the number of interviews and type of interviews they must have, but it is also the manual means for the recording of the interviews after they have made them. For example, we will circle in red or in blue 24 men indicating they have to interview 24 people and they strike out the [43] numbers until they reach 24, and then they know they have made enough interviews of those men. When the interviewers come in they fit it into our master control system so they have a cross-section.

Q. You have a cross-section from the record and on which you base——

A. Yes, and when the interviewers come in, we may be sure that the interviewers have followed our



(Testimony of John B. Knight.)

instructions. So we verify ten per cent of our interviewers by reinterviewing those people either by telephone or personal interview or by postcard in which we go back over the questionnaire in detail so we know the answer we have on the questionnaire is the same as they were giving us on the phone during the verification process. Then the questionnaires are edited to be sure that everything is in order for the tabulating process and during the course of the interviewing we maintain what is known as a stabilization chart.

Mr. Johnston: I would like to have the stabilization chart marked as Defendant's Exhibit F For Identification.

(The stabilization chart was thereupon marked Defendant's Exhibit F For Identification.)

Q. (By Mr. Johnston): Go ahead, Mr. Knight.

A. While Exhibit B gives us a "rule of thumb" method of the sufficiency of the samples, the stabilization chart provides the means of determining when we have reached the point [44] beyond which no further interviews would make any material difference in the outcome of the survey.

Q. This tabilization chart which you use is Defendant's Exhibit F, is that correct?

A. That is correct.

Q. How do you determine, and could you explain a little more fully from your stabilization chart, that is, the number of interviews you have taken is



(Testimony of John B. Knight.)

a sufficient number to give you the views or the answers of the entire population?

A. We take our sample in our interviews in groups of fifty. We will take a key question and tabulate the result of the key question. We add another fifty, making a hundred, and select at random fifty, and then the results of that tabulation are put on the stabilization chart. Then the next group of interviews that come in of fifty, we mix with the first one hundred, making a total of one hundred and fifty, and select at random fifty, and plot that on the map. Then we take the next fifty and so forth, until the lines on that chart, or the responses to this particular question, levelling out for three successive increments or samples, so there is not a swing of more than one per cent. That is the "levelling out process". When we reached that point where the three successive increments don't permit a swing of more than one per cent, we reach the point where no further interviews would make any difference in the outcome of the [45] survey.

Q. Does that make the general picture, then, as to how you conduct your surveys?

A. That is the general picture of how we conduct our field operations and the mechanical means of determining when we have a sufficient sample.

Q. What questions do you use for this survey, or what questions did you use in the survey you made for Safeway, and how were they selected? Those are the questions that I believe appear on Exhibit D of which you have a copy.

(Testimony of John B. Knight.)

A. May I ask you a question?

Q. Yes.

A. Of course, there is the mechanical means of tabulating which I did not describe.

Q. Suppose you describe that first.

A. When all of the interviews have been received and we have reached the stabilization point, we punch one or more cards on the Hollerith System, but we use the Remington Rand, and these cards are run through out counter-sorter and then are run through the tabulator. It has an error factor of about 1/4000th of one per cent. When the totals have been returned from the tabulator we take those totals and compute them on our regular machines for that purpose. That completes the description. Then it becomes a matter of mechanically typing the report. [46]

Q. Will you state how you selected the questions you did which were used in the Safeway questionnaire?

A. I was called by the Safeway organization to make this survey and told the purpose of the survey and asked to assist in the preparation of the questionnaire to find out, to determine what was the public understanding of the word "Safeway" in Los Angeles County. We determined to make, just offhand, a thousand interviews. We used this questionnaire consisting of three questions.

Q. Three categories of questions, didn't you say?

A. Yes, that is correct, because each one of them has more than one part—yes, that's right.

(Testimony of John B. Knight.)

Q. When an interviewer went out with this questionnaire he presented the material as shown on this questionnaire, is that correct?

A. Each respondent was interviewed on a separate questionnaire, read the contents thereof verbatim and made his reply.

Q. A separate questionnaire, but they were all this form? A. Yes, on this form.

The Court: What was the result? How did they answer No. 5, or Subdivision 5 in No. 2?

Mr. Johnston: "Do you think Safeway Construction Company is connected with another company, or is an individual corporation?"

The Court: No, "What is the first thing you think of [47] when you see the word 'Safeway'?" What is the result of that?

A. 91.6 per cent identified it with a commercial product or brand name. Of those, 85.2 per cent said "store or grocery or market". 4.4 per cent said "food, groceries, meats". 1.6 per cent said "chain store". And .4 per cent said "shopping".

The Court: That is the crucial point in the report?

The Witness: That's correct.

The Court: In other words, the other questions are asked to give a certain amount of window dress, so to speak, so the people do not exactly know what you are actually seeking, so you would be more inclined to get more accurate responses.

The Witness: We have to train their minds, sir.

Mr. Johnston: I will offer this tabulation from

(Testimony of John B. Knight.)

which the witness just read of the result of the question, "What does the word 'Safeway' mean to you?", as our next exhibit in order.

(The tabulation in question was thereupon marked Defendant's Exhibit G For Identification.)

The Witness: As indicated by the questionnaire we gave them this little preamble and gave them a card with these named and asked them immediately what was in their mind or what their understanding was of that word. [48]

Q. (By Mr. Johnston): And you used these exhibits B, C, D, E, F and G in making this survey? A. Yes—what was G?

Q. G shows the results or tabulation you just read us. A. Yes.

Mr. Johnston: Now, if your Honor please, I offer in evidence Exhibits B through G, inclusive.

Mr. Westfall: We object to that as incompetent, irrelevant and immaterial to any issue before the Court.

The Court: I will overrule the objection. It is part of the witness' testimony as to the method by which the survey was conducted.

(Defendant's Exhibits B through G, previously marked for identification, were thereupon received in evidence.)

Mr. Johnston: There is one further matter, your Honor, which it is immaterial to us whether we go

(Testimony of John B. Knight.)

into or not. I am just indicating what we might prove, and maybe we can short-cut it. In answer to the other questions as shown on the questionnaire, I take it the results thereof are irrelevant in this case and I did not intend to offer them, but I simply wanted to show your Honor what the general picture was.

The Court: Very well.

Mr. Johnston: That's all.

### Cross-Examination

By Mr. Westall:

Q. Did you take pains to pick out those [49] whom you assumed, or whom you were told were customers of the Safeway Stores for this inquiry?

A. No, the people were interviewed at random according to the map I have furnished and the same proportion of interviews. In other words, there was no previous or predetermination of whom we were going to interview, except the interviewers were given a description of the person they must find.

Q. And this description would be just a housewife or a professional man or an engineer or a working man, or anything? That would be the general description that you gave them?

A. Yes.

Q. And when they had the interview they would show the list and ask what these words indicated in their minds?



(Testimony of John B. Knight.)

A. No, not exactly. They read the preamble and then they would show them each question and would begin showing them these cards, one right after the other and they would show the card with the word, say, "Diamond", and ask them what it meant to them, and the person would respond, and the response would be noted on the questionnaire.

Q. They would be shown, for example, a card with the word "Standard" on it and they would probably say "Standard Oil Company"?

A. Some did; some didn't.

Q. And they would be shown a card with the word "Thrifty" on it and some would probably say "Thrifty Stores"? [50]

A. Some did.

Q. That was the idea of the whole thing?

A. Yes.

Mr. Westall: That's all.

### Redirect Examination

By Mr. Johnston:

Q. Do you have the percentages with respect to "Standard" and "Thrifty" and the others there?

A. Yes.

Mr. Westall: I think this is incompetent, irrelevant and immaterial.

Mr. Johnston: It is proper redirect examination and indicates the results with respect to "Standard Oil Company" as compared to "Safeway" and "Thrifty Stores," a well-known chain store in Los-



(Testimony of John B. Knight.)

Angeles, and gives a better picture of how this worked out.

The Court: You may answer the question. I take it from the fact that Counsel asked the question, it is going to appear that more people identified "Safeway" with Safeway Stores than "Standard" with Standard Oil.

The Witness: Are you asking me a question, sir?

The Court: Yes.

A. That is true; 66 per cent of the people identified "Standard" with the Standard Oil Company.

The Court: Standard Oil Company might not be happy to hear that. [51]

The Witness: They might be a possible client for me.

Q. (By Mr. Johnston): Will you give the full answer?

A. I will start with "Diamond": 85 per cent of the people expressed "Diamond" as jewelry of some sort; 9.6 per cent suggested a commercial product or brand name like "Diamond T Company", or "Diamond Match Company"; 3.9 suggested names of places or objects.

In the case of "Standard", 66 per cent suggested commercial product or brand name, like oil company gasoline brands, service stations; 14.3 per cent suggested abstract ideas like "Standard of Living"; 1.9 per cent suggested some tangible object like "Standard Equipment" or "Standard Dictionary".

(Testimony of John B. Knight.)

In the case of "Rose", 69 per cent suggested a flower; 7.3 per cent suggested a commercial name; 5.9 per cent suggested a person or a place, like "Rose Bowl", or "Rose Parade", and miscellaneous places; 3.9 per cent suggested a commercial product or brand name like peanut butter or liquor; 3.8 per cent said it suggested a color; 3.9 per cent suggested perfume or scent; 2.9 per cent expressed abstract ideas.

I have read "Safeway".

In the case of "Thrifty", 80.3 per cent suggested a retail outlet like drugs or drugstores, or stores or markets, or marts. Also, ice cream or cigarettes. 12.2 per cent suggested an idea of savings, like money in the bank, economical, frugal. [52]

In the case of "Security", 60.3 per cent said "Security First National Bank". 12.2 per cent said "tangible objects like gold and money in the bank, life insurance, home, job or health"; 10.6 per cent thought it suggested an abstract idea like stability or security for the future safety or old age; 2.9 per cent mentioned social security.

Have I covered them all?

In the case of "General", which was the last one, 45.7 per cent said it suggested a military general, like MacArthur or Eisenhower; 27.1 per cent suggested commercial product or brand name like "General Electric", or "General Petroleum", or "General Tires", and food products; 12.4 per cent said it suggested an abstract idea like "everything

(Testimony of John B. Knight.)

in general", ideas like "general nuisance", and "general opinion", and "general average", or "ordinary"; 3.8 per cent said it suggested an object or place like "General Delivery", or "general store, merchandise", and miscellaneous places and objects. Then, there was 10 per cent for "miscellaneous" there.

The Court: These other names were not put in there for the purpose of making comparisons with Safeway, were they, or were they just for the purpose of providing other names of some kind, any kind, so that the inquiry would not be knowingly directly solely to Safeway?

A. I don't know what the legal objective was, your Honor.

The Court: What was your objective? I am trying to [53] find out whether you put these other six questions in for the purpose of seeing how they compared with Safeway, or to cover up the fact that you wanted to get an unprejudiced answer to the inquiry as to Safeway?

A. They were put in for both reasons; primarily, to hide the identity of Safeway so there wouldn't be any prejudice, and, secondly, to see if there was a measure of comparison which would show.

Q. Of course, there are just myriads of names you can use for purposes of comparison?

A. That's right.

Q. And you might have used many other names that might have been associated in the public mind

(Testimony of John B. Knight.)

stronger association with an organization than "Safeway"?      A. That's right.

Q. So the main point was to get an unprejudiced answer?      A. That's right.

Q. (By Mr. Johnston): In your opinion, what do these figures mean with respect to the population of the County of Los Angeles?

A. The latest estimate for the population of Los Angeles County is 3,700,000. This is the estimate of the Regional Planning Commission of Los Angeles; so this would be 90 per cent of the 3,700,000, or about 3,300,000, using round figures. [54]

Q. It is your conclusion that in Los Angeles County the name "Safeway" means to that number of people, some three million people or more, Safeway Stores, Incorporated?      A. Yes, sir.

Mr. Johnston: That's all.

The Court: Is there anything else?

Mr. Westall: That's all.

Mr. Johnston: I will ask to have these introduced as a summary of the witness' testimony.

The Court: Very well.

Mr. Johnston: Could these others be marked and introduced?

(The computations of the witness Knight were thereupon received in evidence and marked Defendant's Exhibit H.)

## DRUMMOND WILDE

recalled as a witness on behalf of the defendants; and having been previously sworn, testified as follows:

Direct Examination  
(Resumed)

By Mr. Johnston:

Q. What, Mr. Wilde, is the basic policy of the defendant, Safeway Stores, Incorporated, with respect to the conduct of its business?

Mr. Westall: I object to that. It is broad, general and indefinite.

The Court: It is a pretty general question. I imagine [55] anyone with any degree of loyalty for the concern might have a very long and elaborate answer, but it might not be very helpful to me.

Mr. Johnston: What I am directing my question to, your Honor, is what is the published policy of the company which I am going to ask the witness to give your Honor with respect to the conduct of its operations. In other words, what are its instructions to its staff, to its employees and others in the basic over-all conduct of its merchandising business.

Mr. Westall: We object to that.

The Court: What is the relevancy of that?

Mr. Johnston: The relevancy is that an organization of this size, with thousands of employees, issues directives to its employees as to what the policy of the company is, and that must of necessity have an effect on their conduct and is evidence of the practice and policy of the company which has been



(Testimony of Drummond Wilde.)

pursued in building up the reputation which the company has.

The Court: Is there any dispute about the fact that the Safeway Stores, Incorporated have a good standing in the community as a selling enterprise?

Mr. Westall: I think they are well known. I don't think there is anything in the evidence to show they are any higher grade than other grocery stores. I think most of them have [56] to have a pretty good reputation for their customers, for fairness, or they wouldn't stay in business.

Mr. Johnston: I am simply making this showing in this equitable proceeding on this material matter.

Mr. Westall: I could ask the same question with respect to Mr. Dunnell's business and he would state the same policy in dealing with his customers.

Mr. Johnston: I am talking about, your Honor, a published directive given to these thousands of employees which is quite different than a New Year's or other resolution made by an individual.

Mr. Westall: I don't think so.

The Court: I don't know whether I would want to agree as to that. I suppose the little fellow has just as much right to assert he has a good reputation as a big organization. I don't see how that is going to help me decide the question of law as to whether or not this decision in the Patent Office was not recognized.

Mr. Johnston: A lot of my evidence is directed in this case to show what the word "Safeway" has come to mean as the result of our efforts. We have



(Testimony of Drummond Wilde.)

introduced evidence intending to show what this organization and its name means to the public. I think it is also relevant to show how that organization conducts itself, and what kind of an organization it is. [57]

The Court: Would not a stipulation cover that, a stipulation from your opponent to the effect that this is a well-regarded and well-operated large chain store business? Wouldn't that cover what you have in mind?

Mr. Johnston: In part, yes, and also it operates with respect to the public on the basic policy of reducing the cost of food to the consumer while yet maintaining the highest quality.

The Court: It is a well-regarded and well-known chain store enterprise which offers good values to the public. Would there be any dispute as to that?

Mr. Westall: There would not be if we just limit it to that. That also applies to Mr. Dunnell, also, who puts out a wonderful product and whose use of the word "Safe Way" has made the word of value and benefit because he distributes——

Mr. Johnston: That is another question.

The Court: We are getting into another question. What I am trying to do is to see if we can save some time on which is perhaps an obvious matter. I do not understand, Counsel, that there is any dispute with regard to the fact that your client has a good standing and reputation in his business as such.

Mr. Westall: Yes.

(Testimony of Drummond Wilde.)

The Court: Counsel is asking you to stipulate that the Safeway Stores, Incorporated are well regarded, well operated [58] chain store organization which offers good values to the buying public.

Mr. Westall: I think that is perfectly accurate, if you will add the same thing with regard to Mr. Dunnell.

The Court: Of course, your client, however, does not run a chain store.

Mr. Westall: I know, but as to his business, if we stipulate to that, we should stipulate Mr. Dunnell has a good policy of running his business. He sells goods at as low a price as possible.

Mr. Johnston: I am sorry, I am not in a position to make that stipulation as to Mr. Dunnell. There will be evidence introduced subsequently in the trial concerning Mr. Dunnell's reputation by going directly to this issue. We feel his use of the name will definitely damage the high standards which as a result of our practices and policies we have acquired.

Mr. Westall: There is no evidence like that in the record so far.

The Court: I suppose I had better hear all of the evidence. Could you have your witness make a general statement without reading a lot of things as to pronouncements that executives made to the employees? Can't he state how the business is conducted, how in general the business of Safeway Stores, Incorporated is conducted so far as its [59]

(Testimony of Drummond Wilde.)

general operations and treatment of the public are concerned.

The Witness: As to pricing policy, it is our policy to pass on to the consumer the benefit of savings that may result from the way in which we do business and still yield to us a reasonable profit. That is the basic principle as far as pricing is concerned.

As far as the merchandising policy is concerned, we guarantee unconditionally that all merchandise sold and distributed by our stores, regardless of whether we manufacture, or whether it is manufactured by an outside concern, will satisfy the customer. The customer is entitled to have his money refunded if he is dissatisfied with the merchandise. In some cases we do not require merchandise to be returned or the unused portion, in some cases. That will all depend on the circumstances.

Mr. Westall: As a matter of fact, the witness does not know these individual circumstances except by hearsay. So therefore, we object to most of this testimony and move it be stricken as hearsay, namely, that which he heard from others and what he assumed the employees did or would do.

Mr. Johnston: He can testify as to the directives that were issued so far as he knows, with respect to the practices followed.

The Court: Have you another witness besides this one?

Mr. Johnston: I do have other witnesses, yes.

The Court: What are they going into?

(Testimony of Drummond Wilde.)

Mr. Johnston: I have testimony with respect to the company's operations in Los Angeles at the time the plaintiff first commenced the use of the product in Los Angeles. I understand his testimony and his allegations are to the effect that he had no knowledge of Safeway at that time, or little knowledge, and I expect to show, or I expect to disprove that statement. I will introduce evidence showing very briefly the volume of the company's business, Safeway's business, as further evidence of the secondary meaning which should be attached to it, and also I will introduce evidence with respect to the number of customers it has and people who must know the name "Safeway" through it.

The Court: The reason why I ask you this and why I am endeavoring to shorten this case is that I have other cases that are waiting for trial. I am not trying to prejudge this case, but it is difficult for me to see how a great organization like this company can be so concerned about a little piece of paper used on a toilet seat and how it affects this enterprise. Surely if I went into a washroom in a hotel to take care of my wants in a toilet I am not concerned whether a piece of paper has the word "Safeway" on it, nor would I identify it with any such institution as the Safeway Stores, Incorporated. It seems to me to be kind of a tempest in a teapot, and that is why I cannot understand [61] why there should be any great objection to the plaintiff using a simple term like this in connection with this piece of paper that is used in a toilet. If it is

(Testimony of Drummond Wilde.)

of such vital concern as that to take up the time of the Court to hear testimony, I suppose I am duty bound to hear it, but I have some doubts as to whether or not it can be of such grave importance. Of course, everyone's rights are important, but this doesn't seem to have much significance.

Mr. Westall: We have Mr. Dunnell's deposition and he testified what Safeway stores he knew of at the time and he is just repeating it.

The Court: What is the importance of this case that should take up so much time in a Federal court?

Mr. Johnston: The defendant spends each year millions of dollars building up the name and meaning of the name "Safeway" which we think is in the public mind. This is, as I say, a small use, and it is hard to see how this use has damaged us in this volume of business. However, this is simply a beginning. Now, there were a number of trademark registrations of the name "Safeway" handed to your Honor this morning by Mr. Westall and they show over a period of years that use of the name "Safeway" by others is increasing. We haven't any desire to discourage these people from their business, but I don't see why they have to use the name to which we have given such a value and in which we have made [62] such a tremendous investment. It seems to us that will damage us and the public and it will not hurt them at all to be prevented from using that name which we have taken and built up by the special combination of words, "Safeway Stores, Incorporated".



(Testimony of Drummond Wilde.)

The Court: In a general merchandising business, I can understand that, but what is the relationship to this type of thing that has nothing to do with merchandising at all?

Mr. Johnston: It is just as Judge Learned Hand stated in the famous Yale Lock case. That was a case where some people put out flashlight batteries under the name "Yale" and Judge Hand discussed that very question and said, of course, much more eloquently than I can, that a man's name is like his face. It becomes his indicia, and his reputation is built up or broken up in that manner. If others are permitted to use that name he loses control of that reputation for good or for bad and that should not be permitted.

The Court: I fully appreciate that, Counsel. In the few years I have been on the bench I have had quite a few copyright and patent cases, and I have read many of these decisions, but it is only within the general field of business activity that concerns the party who wishes to protect his name that we have these rules you speak of. For example, if I were to devise a formula describing it—to pick on the most most insignificant thing I can think of—describing it as [63] the "Safe way to use scissors to cut toenails," I could use that word, but how would it be in the field in which there would be any damage to the goodwill that has been put into the use of the name in a certain field of human endeavor? I don't think that Judge Learned Hand or any of the judges who have written in the patent



(Testimony of Drummond Wilde.)

or copyright field have indicated that the coverage extends beyond a reasonable limitation of business activity. It is not intended to cover everything that everybody might do in using the word "Safe-way".

Mr. Johnston: Well, it goes pretty far and I think the cases do, too. Surely it must be conceded that there is a closer connection between these toilet seat covers and our toilet tissue than there is between texture fabric and radio appliances.

The Court: No, it is in the general merchandising field there. The public might well think that the RCA was the fabric that you have mentioned, but certainly because of the field of activity of the RCA——

Mr. Johnston: If I may interrupt, your Honor, I am not sure that your Honor has clear the use of the name. Counsel showed you the tab of paper. Actually that is not the important use. The important use is on every cabinet through which these articles are dispensed whereon is written the word "Safe Way", which is placed in the public toilet stall, [64] and that will appear from the evidence now just as a baby business. It is going to increase tremendously, for example, as the paper towel business increased. In this manner the name "Safe Way" will be brought to the attention of the American public who know our name. In other words, this may become a very great usage of the name.

The Court: But the people that go into lavatories are not misled. They are not buying anything.

(Testimony of Drummond Wilde.)

They are not buying something the Safeway Stores put out. This is not a piece of merchandise. It is a sanitary service rendered just the same as they might quirt some liquid in there out of a can that is marked "Safe Way". The people that go in there are not misled. They are not buying a commodity that they think is being offered for sale in there.

Mr. Johnston: If they find it unsatisfactory that will be part of their association with the name "Safeway". If they know the manufacturer and don't like that, that will be part of their association with the name "Safeway". Multiply that many times and that must have a damaging effect in our relations with people who don't know whether or not we are connected with that manufacture. As I have pointed out and the evidence shows, Safeway Stores, Incorporated manufacture many lines and we deal extensively in paper products. It would be very reasonable to assume a connection or sponsorship of this product by Safeway when these toilet seat covers [65] are used.

The Court: I tell you these things so you can be prepared here to meet them instead of me sitting here stony-faced. It appeared to me that the case was rather insignificant. I don't mean insignificant in the sense of rights, because everyone's rights are important, but I mean whether the case had enough substance to warrant it being in the Federal court taking up a lot of time. Insofar as your client is

(Testimony of Drummond Wilde.)

concerned it is important to the plaintiff, relatively much more important.

Mr. Johnston: We are simply trying to keep the plaintiff from using what we think is our name, but we are not at all attempting to keep him from continuing to manufacture his product.

The Court: Very well, gentlemen. We will take a recess now in this case until tomorrow morning at ten o'clock.

(Thereupon an adjournment was taken until tomorrow morning, March 13, 1947, at 10:00 o'clock a.m.) [66]

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Thursday, March 13, 1947, 10:00 o'Clock A.M.

The Clerk: Dunnell vs. Safeway.

Mr. Westall: Ready.

Mr. Johnston: Ready.

The Court: You may proceed.

Mr. Westall: If the Court please, I would like to make just a brief statement of how I think we might possibly shorten this trial. The testimony that was taken yesterday on the part of the defendant is purely corroboratory to evidence that is thoroughly developed in the depositions which were taken dealing with the use of the word "Safeway" and in newspapers and so on. Advertisements were produced and the matter was most thoroughly gone into.

The Court, of course, has power to limit the amount of evidence on such a, I might say, subsidiary issue. Otherwise the defendant might filibuster. The Court's time is valuable, and while I say filibuster, I will justify that in a moment. I made an uncontroverted statement of facts on which I could base my argument in this case and referred to very little of these things here, but not, however, overlooking them. I am very anxious to make an argument and show our reasons, and while the Court understood those facts and while the Court correctly stated that it is merely a simply application of the law to those facts; yet it may not be so simple [67] as the Court would think for the moment. The explanation of the law is very simple, and yet the fact is that the Commissioner of Patents as well as opposing counsel absolutely ignored the arguments we rely upon.

The Court: Then you are really arguing the matter now?

Mr. Westall: I am merely laying a foundation for this. I am very anxious to present the brief argument at the end of the case.

The Court: Last evening I was merely attempting to indicate the questions that arise in my mind in the case and I will rely on Counsel not to unduly take up the time of the Court in presenting cumulative matters. I think we can dispose of the evidence in the case rather briefly, but I don't want to deprive any lawyer of the right to make his record.

Suppose we proceed.

Mr. Johnston: Thank you, your Honor, and I will do my very best to hasten along with the evidence.

DRUMMOND WILDE

recalled as a witness on behalf of the defendant; and having been previously sworn, testified as follows:

Direct Examination  
(Resumed)

By Mr. Johnston:

Q. Mr. Wilde, as head of the legal department, are you in charge of the company's affairs with respect to opposition of attempted registrations of the name "Safeway"? [68]           A. Yes, I am.

Q. Will you state briefly to the Court the facts with respect to other applications for the name "Safeway" and the company's position with respect to them?

Mr. Westall: We object to that as entirely incompetent, irrelevant and immaterial.

Mr. Johnston: I think in view of your Honor questioning whether this case is of such importance that the time of the Court should be taken up with it, that I should show to your Honor——

The Court: I will overrule the objection.

Mr. Johnston: Very well.

Q. Will you please proceed and answer the question, Mr. Wilde?

A. About the year 1938 or thereabouts we became aware of the problem with which we were faced as the result of the use of the name "Safeway", or



(Testimony of Drummond Wilde.)

confusingly similar variations thereof by others in their lines of business and related lines of business such as drug stores as well as other lines of business. It was in 1939 that we caused our first opposition proceeding to be brought regarding the name "Safeway". That was an application brought by a gentleman in New York to register the brand "Safeway 1450", the numbers "1450" following "Safeway" as a trademark for use on sanitary napkins. We opposed that application successfully. Following [69] that we had another proceeding regarding the attempt to register the name "Safeway" for use on gasoline, motor oils and greases by a concern in Evansville, Indiana. That opposition proceeding was not successful and the registration of the trademark was allowed following the final outcome of those proceedings.

Another case we had was the use of the name "Safeway" for a cleaning fluid. We lost that in an opposition proceeding.

Following that we had a case involving the use of the name "Safeway" and its registration for use on ophthalmic lenses or eyeglasses. We succeeded in that opposition after a trial on the merits before the Examiner of Interference. At about the same time in 1944 we had another opposition proceeding involving an application by a concern in Kokomo, Indiana, for the registration of the name "Save-Way" for poultry-house equipment. That opposition proceeding ended successfully for us. As I remember, those were all of the opposition pro-



(Testimony of Drummond Wilde.)

ceedings in which we have been involved in connection with the attempted registration of the name "Safeway". This case is just one part of a pattern, your Honor. We have been faced with a very serious problem throughout the country in which other concerns and individuals have started to use the name "Safeway" or variations. In some cases they have attempted to simulate the color effects on [70] their stores, used on their stores or store signs for the purpose of apparently trading upon our goodwill. We have a number of cases in which we are proceeding. In some of these we have already proceeded to litigation. This is just one of these cases in which Mr. Dunnell was the original moving party. He attempted to have the name registered as a trademark for use on paper toilet seat covers. Naturally our reaction was to oppose that registration. As the record will show, our opposition was successful before the Patent Office. Mr. Dunnell has brought this action to attempt to upset the decision of the Patent Office. We felt the natural thing to do would be to oppose that action and also attempt to enjoin Mr. Dunnell from the continued use of the name on his particular product. In other words, this is just one of many situations with which we are faced and which others are biting off piece by piece, or attempting to bite off piece by piece the rights and substantial investment which we have built up with regard to the use of the name "Safeway" to identify our stores and our business. We have spent over \$4,000,000 a year in advertising,

(Testimony of Drummond Wilde.)

most of which, or a large part of which is devoted to advertising in which the name "Safeway" alone appears.

Mr. Westall: We move to strike the answer as not the best evidence. Rather than making a recitation of what happened in these prior registrations, the proper way to prove [71] it would be by certified copies of the official records and then we could find out if they were at all pertinent and how they differed from the case at issue.

The Court: It is somewhat argumentive, but I will allow the answer. The motion to strike is denied.

Mr. Westall: The latter part of the answer regarding Safeway and how he felt about this suit against Mr. Dunnell we move to strike.

The Court: I think the answer is argumentative and irrelevant, but it is in line with the plan of presentation of the defense and at least it presents the point of view of the defendant.

Q. (By Mr. Johnston): Mr. Wilde, is the stock of Safeway Stores, Incorporated listed on any stock exchanges?

A. It is listed on the New York Stock Exchange, the San Francisco Stock Exchange and the Los Angeles Stock Exchange.

Q. Can you say how the stock is commonly referred to—by what name?

Mr. Westall: We object to the question as totally irrelevant.

The Court: Objection overruled.

(Testimony of Drummond Wilde.)

The Witness: "Safeway".

Q. (By Mr. Johnston): What number of shares are outstanding, approximately?

Mr. Westall: The same objection is made to all these [72] questions as to the stock and amount of stock.

The Court: Objection overruled.

The Witness: 2,585,952—all common, and 22,321 shares of preferred.

Q. (By Mr. Johnston): Approximately how many stockholders does the company have?

A. As of June 18, 1946, which was the last date on which we made a count, we had 14,612 common stockholders and 5,115 preferred stockholders.

Q. Does the company distribute to the stockholders and other interested persons an annual report? A. Yes.

Q. Do you have those annual reports with you?

A. Yes.

Q. You have produced at my request annual reports for the years 1926, 1928, 1930, 1932, 1934, 1940 and 1945? A. Yes.

Mr. Johnston: I would like to have these marked as our next exhibit in order, if the Court please.

(The reports in question were thereupon marked Defendant's Exhibit I for Identification.)

Q. (By Mr. Johnston): These annual reports contain a statement of the company's affairs to the stockholders each year, is that correct?

A. Yes. [73]

(Testimony of Drummond Wilde.)

Q. And these annual reports make common use of the word "Safeway" alone: Is that also correct?

A. In some cases the name "Safeway" appears also in the balance sheet and profit and loss sheet.

Mr. Johnston: I will offer these in evidence.

Mr. Westall: We object, if your Honor please.

The Court: I will sustain the objection. I cannot see that I should be required to read all of the annual reports of this company to see whether or not there is a trademark infringement.

Mr. Johnston: It seems to me that the distribution of these reports is so large, and shows the use of the name "Safeway", which tends further to show the meaning of the term.

The Court: The statement of the witness would be sufficient that in the annual report to the stockholders the use of the word "Safeway" is used without the reports themselves being admitted in evidence.

Mr. Johnston: I think they are also admissible to show the size of the company's operations and its business.

The Court: The witness has testified to that. I don't think the record should be encumbered with the annual statements of the defendant. The witness can state the general extent of the business of the corporation. If I should decide in your favor and your opponent wanted to appeal it [74] would be an inordinate burden to prepare all these exhibits and this record.

(Testimony of Drummond Wilde.)

Mr. Johnston: They are cumulative, but they certainly help in giving the full picture.

The Court: How much business do they do in a year, ordinarily? What is the volume of the business?

A. The sales were over six hundred million.

The Court: Did you state yesterday about how many stores there were throughout the United States? You said there were two or three hundred in Los Angeles?

A. Yes.

Q. Approximately how many stores are there throughout the United States.

A. About twenty-three hundred.

Q. (By Mr. Johnston): How are the stores located with reference to shipping centers, arterials and highways, and so forth?

Mr. Westall: That is objected to. We could go on for weeks with this.

Mr. Johnston: I am simply asking the questions having regard to the company's general practice and show the stores are located prominently where the public can see them.

The Court: I will allow the question.

The Witness: The stores are generally located in strategic positions or locations in or adjacent to shipping [75] areas or neighborhoods.

Q. How will Safeway be injured by Dunnell's registration and use of the name "Safeway"?

A. By his use of the name "Safeway" on toilet seat covers we have no control over his policies or his operations or what he may do, or how he



(Testimony of Drummond Wilde.)

may transact his business; even though his business may be transacted properly from time to time, we have no control how it may be transacted over the future. That is something we have nothing to do with, the quality of the product that he manufactures, or what satisfaction he may give his customers.

Q. Do you think it is possible the company may stock this toilet tissue in the future?

A. They would, depending upon entirely the demand for it, I think, and our facilities for handling it.

Q. I think I said "toilet tissue"—I meant "toilet seat covers"?      A. Yes.

Mr. Johnston: You may cross-examine.

Mr. Westall: No cross-examination.

### J. CLINTON EVANS

called as a witness on behalf of the defendant; and having been first duly sworn, testified as follows:

The Clerk: Will you state your name to the Court? [76]      A. J. Clinton Evans.

### Direct Examination

By Mr. Johnston:

Q. What is your address, Mr. Evans?

A. 1809 Wellington Street, Oakland, California.

Q. By whom are you employed?

A. Safeway Stores, Incorporated.

Q. In what capacity?

A. I am an accountant in their Bradford Accounting Division.



(Testimony of J. Clinton Evans.)

Q. What type of records are kept under your supervision?

A. We keep all types of profit and loss statements and balance sheets and all financial reports of the company in our office, as well as other statistical reports that may be sent to us for examination and accumulation for information for the companies in general.

Q. Will you state very briefly the number of stores operated in Los Angeles in 1926 when the company commenced operation?

Mr. Westall: We object on the grounds the question is incompetent, irrelevant and immaterial. The question about Los Angeles is not important.

Mr. Johnston: This will take just a few moments.

The Court: I will overrule the objection.

The Witness: There were 322 stores operating under the name of Safeway in Los Angeles in 1926.

Q. (By Mr. Johnston): Will you tell the Court the number of stores operated each year since 1926 in California? [77]

A. In the year 1927 there were 573 stores. In the year 1928 there were 751. In the year 1929 there were 1,010. In the year 1930 there were 977. In the year 1931 there were 1,499. In the year 1932 there were 1,320. In the year 1933 there were 1,288. In the year 1934 there were 1,274. In the year 1935 there were 1,312. In the year 1936 there were 1,296. In the year 1937 there were 1,225. In the year 1938 there were 1,113. In the year 1939 there were 1,015. In the year 1940 there were 893. In the year 1941

(Testimony of J. Clinton Evans.)

there were 805. In the year 1942 there were 738. In the year 1943 there were 708.

Q. I think that gives the picture. Now, Mr. Evans, will you tell the Court in what states the company stores are located?

A. The company operates in 19 western states, four eastern states, the District of Columbia, and also in Canada, in five provinces. Do you want me to list the names of the states?

Q. Yes.

A. Arkansas, Arizona, California, Colorado, District of Columbia, Idaho, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, Oklahoma, Oregon, South Dakota, Texas, Utah, Virginia, Washington and Wyoming. And the five Canadian provinces are British Columbia, Alberta—

Q. That is all right. Will you tell the Court, Mr. Evans, [78] the annual retail sales of the company since 1932?

Mr. Westall: Same objection.

The Court: I will let him put this in the record. Objection overruled.

A. The Witness: The total sales for the year 1932 were \$229,173,468.67. In 1933, \$222,156,841.68. In 1934, \$242,966,383.20. In 1935, \$294,697,599.81. In 1936, \$346,178,061.20. In 1937, \$381,868,220.28. In 1938, \$368,254,991.28. In 1939, \$385,882,083.00. In 1940, \$399,322,122.15. In 1941, \$475,124,885.09. In 1942, \$611,139,476.85. In 1943, \$588,833,620.10. In 1944, \$656,571,505.26. In 1945, \$664,771,549.03.

(Testimony of J. Clinton Evans.)

Q. Now, I ask you, Mr. Evans, this exhibit which has just been marked by the Clerk Defendant's Exhibit J. for Identification, entitled, "Dollar Volume Los Angeles Division, Toilet Paper Sales," and I ask you if that was prepared under your supervision, or from records kept under your supervision? A. Yes.

(The document in question was thereupon marked Defendant's Exhibit J for Identification.)

Q. (By Mr. Johnston): Does that correctly show the Dollar volume sales during the years 1934 to 1946 in the Los Angeles Division, for toilet paper? A. It does.

Mr. Johnston: I offer this in evidence as Defendant's [79] Exhibit J. This shows a range of toilet paper sales of from \$73,651 in 1934 to \$389,642 in 1946.

The Court: That is in Los Angeles County?

Mr. Johnston: Los Angeles County alone, yes.

The Witness: No, Los Angeles Division.

Mr. Johnston: The Los Angeles Division includes, roughly, what territory?

A. It would include Los Angeles County, Kern County, Riverside County, Orange County, and a couple of other small counties down there that have a very small population.

Mr. Westall: We object to the admission of the exhibit into evidence as incompetent, irrelevant and immaterial to any issue in the case.

(Testimony of J. Clinton Evans.)

The Court: It may be admitted. I will overrule the objection.

Q. (By Mr. Johnston): Can you give the company's overall toilet paper sales throughout the country within the last two or three years, since 1942?

A. I believe I am unable to present that to the Court.

Q. What have been the company's advertising expenditures in each of the years since 1932?

Mr. Westall: That is objected to as totally immaterial. They have advertised peas and pins and everything else that hasn't anything to do with the case, but never toilet seat covers. [80]

The Court: Counsel's objection may go to the point that the advertising expenditures might have to do with other things than just the use of the name "Safeway". Wouldn't you have to have some breakdown on that?

Mr. Johnston: We have shown what the advertisements have consisted of.

The Court: You mean all of the advertisements having the word "Safeway" on them?

Mr. Johnston: Yes.

The Court: As well as the radio program?

Mr. Johnston: Yes, as well as everything, surely.

The Court: All right, but just give us the first year and the last year.

Mr. Johnston: Surely.

Q. What is the range, nationally?

A. Total advertising expense for the year 1932

(Testimony of J. Clinton Evans.)

amounted to \$2,505,166.12 and that was increased year by year until 1945, in which the company spent \$4,959,549.43.

Q. Will you tell us how much of that was spent in those two years in the Los Angeles Division?

A. The information I have was for the year 1942 in the Los Angeles Division.

Q. That will be satisfactory.

A. We spent during the year 1942 in the Los Angeles Division \$271,417.49 in newspaper advertising, handbills, spot [81] radio announcements and cuts and miscellaneous materials.

Q. Do you have a breakdown with you of those advertising figures in terms of the amount spent for newspapers, and so on?

Mr. Westall: We object to that on the ground that he is going into unnecessary matters.

The Court: Is that necessary?

Mr. Johnston: I had in mind the rest of what your Honor thought I should show.

The Court: No, the only point I had made was whether or not that advertising all mentioned the name "Safeway" or whether you should break it down. You pointed out the evidence showing all of the advertisements contained in the word "Safeway".

Mr. Johnston: Yes, I will withdraw that question. You may cross-examine.

Mr. Westall: No cross-examination.



GERALD E. BROWN

called as a witness on behalf of the defendant; and having been first duly sworn, testified as follows:

The Clerk: Will you state your name to the Court?      A. Gerald E. Brown. [82]

Direct Examination

By Mr. Johnston:

Q. Mr. Brown, you are employed by Safeway Stores, Incorporated?      A. That's correct.

Q. What is your address?

A. 2630-77th Avenue, Oakland.

Q. In what department are you, Mr. Brown?

A. I am in charge of the Survey Section of the Market Research Department.

Q. At my request did you make a study to determine or to estimate the number of customers that Safeway has?      A. That's correct.

Q. I show you Exhibit A for Identification, marked Exhibit 1 at the top, and consisting of several tabs and ask you if that is one of the studies which you prepared at my request?

A. That's correct.

Q. Will you please state to the Court what that study consists of and what it shows?

Mr. Westall: We object to the question again as entirely irrelevant and immaterial and cumulative to matters in the use of the word "Safeway" which has already been sufficiently shown.

Mr. Johnston: What we are trying to show is how many people must patronize the Safeway



(Testimony of Gerald E. Brown.)

Stores. The volume is tremendous as proven by the statistical studies Mr. Brown [83] has prepared and which goes to carry out the proof of one of the basic issues in this case, namely, the meaning of the word "Safeway" to the public.

Mr. Westall: The Court could very well assume or surmise the number of families which would be sufficient for their purposes, if they sell so many products—and so forth. So it is all cumulative.

The Court: I don't quite understand this. This refers to the number of families that the defendant would serve if the customers bought all of their requirements there?

Mr. Johnston: The witness will explain this, if permitted by Counsel. The point is this—

The Court: What are you trying to show by this?

Mr. Johnston: We have no actual customer counts and it is impossible to show the number of people that patronize the store. What we have tried to do by this study, namely, by taking the over all population census figure and the over all census record of food sales and comparing with the latter, to the sales of food, finding out what per cents of the total food business "Safeway" handles, and by applying that against the total population and estimating that, at least that number of people must have bought their food requirements at our stores.

The Court: What conclusions do you come to from this survey you have referred to as to the number of customers, [84] Mr. Brown?

(Testimony of Gerald E. Brown.)

The Witness: We have estimated it roughly as 18 million persons being served by food that is purchased at "Safeway."

The Court: Is that annually?

A. Yes, for the country as a whole at any one time there are that many persons that are regular customers of Safeway Stores in all of our divisions.

The Court: You mean by that, you include a person that might go in once and buy once?

A. Yes, we have estimated about thirteen and one-third millions persons are served regularly by food from "Safeway" and around eighteen million either regularly or occasionally. That is, they are familiar with "Safeway" and do buy there from time to time.

The Court: And that conclusion is reached as the result of the method you have used in this survey?

A. In this survey we have taken the census figures and estimated their figures in terms of customers who buy all of their food requirements at "Safeway".

The Court: That is contained in the four sheets?

A. The first four, and Exhibit 2—we have made surveys at various times and have asked persons living in various cities we have served, where they buy their foods regularly, and roughly sixty per cent of the persons living in the area we [85] serve show regularly at "Safeway". We apply that to the estimated population we serve, which is 22 million to arrive at a figure of 17.7 million who do shop regularly at "Safeway".

(Testimony of Gerald E. Brown.)

The Court: The reasons why you have come to the conclusions you have stated are set forth in detail and analyzed in these three exhibits?

A. Yes.

The Court: Now, do you wish to object to these, Mr. Westall?

Mr. Westall: We object to those as totally unnecessary and cumulative, and the theory of the name "Safeway" and its meaning has been proven.

The Court: For the purpose of explaining the opinion and statement of the witness in that regard I will allow these exhibits to be marked in evidence.

(The documents in question were thereupon received in evidence and marked Defendant's Exhibits K, L and M, respectively.)

Mr. Johnston: That's all, Mr. Brown.

Mr. Westall: No cross-examination.

### WILLIAM A. VOLLMER

called as a witness on behalf of the defendant; and having been first duly sworn, testified as follows:

The Clerk: Will you state your name to the Court?

A. William A. Vollmer.

### Direct Examination

By Mr. Johnston:

Q. What is your address, Mr. Vollmer?

A. 5221 James Avenue, Oakland.

Q. You are employed by Safeway Stores?

(Testimony of William A. Vollmer.)

A. That's right.

Q. In what capacity?

A. Manager of the Map Procurement Department of the Real Estate Division.

Q. As manager of the Map Procurement Department of the Real Estate Division you are charged with the duty of procuring maps showing the location of the company's stores throughout its organization?

A. That's right.

Q. At my request have you prepared a map showing the location of the company's stores in 1932 in Los Angeles?

A. That's right.

Q. And that is this map over here, is it (pointing to map on blackboard)?

A. Yes, sir.

Mr. Johnston: Could I have that map marked for identification as our next exhibit?

The Court: Are you going to have the witness explain it? [87]

Mr. Johnston: Yes, your Honor.

(The map in question was thereupon marked Defendant's Exhibit N for Identification.)

Q. (By Mr. Johnston): Now, Mr. Vollmer, will you step over to the map and describe to the Court, or tell the Court, and you may use the pointer if you wish, what the various pins in the map show and explain what area is there covered by the whole map very briefly.

Mr. Westall: We object to that as entirely incompetent, irrelevant and immaterial. We remem-

(Testimony of William A. Vollmer.)

ber they have already told how many stores they have in Los Angeles. They have already stated they are in the best locations just like any good-size store will get a good location, and that is what they have done. That map and the explanation of the details cannot possibly aid the Court in determining the pertinent issues in this case.

Mr. Johnston: If your Honor please, the purpose of this map is somewhat different in the main than the previous evidence that has been introduced. Mr. Dunnell has testified, I think, in this deposition in this case that he didn't know of Safeway Stores when he adopted the name "Safeway" and we wish to show that he lived in Los Angeles at that time, that he moved around Los Angeles at that time and that he was on the road five or six hours a day and must have known of the existence of Safeway Stores and even their locations. [88]

Mr. Westall: Mr. Dunnell didn't say he had seen Safeway Stores before. He said he had, but didn't pay any attention to them because they didn't seem to have anything to do with his business, that he probably may have seen them as anyone would see, for example, the Thrifty Drug Stores or anything else. He did not deny having seen them at any place in his deposition which has been taken.

Mr. Johnston: May I take just a moment to refer to the deposition? Reading from Page 50 in the deposition of Mr. Dunnell introduced in evi-



(Testimony of William A. Vollmer.)

dence yesterday by Counsel and which was taken in the Patent Office proceeding——

Mr. Westall: You are not talking about the deposition taken in this case?

Mr. Johnston: No, I am referring to the deposition in evidence in this case which was introduced in evidence by you yesterday.

Cross-Question 157:

“Q. You had heard, however, or did know of a grocery business being conducted under the name ‘Safeway’?”

“A. Not at that particular time in 1933 when I first adopted and used that name.”

158:

“You didn’t know at that time that there was a grocery company in Los Angeles operating under the name of ‘Safeway’ or ‘Safeway Stores’?”

“A. I didn’t know that there was, no.” [89]

Now, we are simply trying to meet that evidence, your Honor.

The Court: I think you are perfectly entitled to meet evidence, but is that a relevant issue in the case?

Mr. Johnston: I think it bears on the equities of the case whether he had in adopting the name reason to know or knew it had already been appropriated by another organization.

The Court: Even though he knew that the Safeway Stores, Incorporated were operating under the



(Testimony of William A. Vollmer.)

name "Safeway", that still would not be a relevant issue on the question of trademark priority.

Mr. Westall: No, it would not be relevant at all and there is no question about the title. As I said before, that is admitted even in the Patent Office.

The Court: I am trying to find out your opponent's reason.

Mr. Johnston: I think this proceeding is fundamentally equitable and the federal Trademark Statute is applied by the Court in determining what is registerable in conformity with the law of unfair competition. I am about to show by this witness that at the end of 1932, shortly prior to the time he adopted the name we had these stores located in strategic and prominent places throughout the Los Angeles area. [90]

The Court: Can't you make a statement on that without encumbering the record with this large map and all the details of it? Can you not make a statement that is not controverted that at this time there were in Los Angeles some three hundred and twenty stores located at prominent points in the business and residential areas in the general Los Angeles area all with the word "Safeway". You don't need a map with all this detail. Is there any dispute on that?

Mr. Westall: No, there is not any dispute. They have already covered that.

Mr. Johnston: All right, your Honor. We simply wanted to meet that issue.

## WARREN W. DUNNELL

recalled as a witness on behalf of the defendant; and having been previously sworn, testified as follows:

## Direct Examination

By Mr. Johnston:

Q. You testified yesterday, I believe, Mr. Dunnell, that you engaged in various forms of advertising and you put out certain circulars, is that correct, to the trade? A. Yes.

Q. Showing you Exhibits O, P, R, S and Q, for Identification, I ask you if those are the types that are representative of the advertising material you put out? [91]

A. Yes, those represent the types that I usually distributed.

Q. And you recognize these as having been published by you?

A. Yes, I think they are all put out by me.

Q. You are sure of that, aren't you?

A. Yes, these are all put out by me, circulars that I published.

Mr. Johnston: If your Honor please, I would like to call your attention to the circumstances of these various circulars marked for identification as Exhibits showing that these products are suitable for sale in the stores. The reverse side of that one, for example, shows that the travel-aid unit is in the word, they are "packages for resale by stores, perfect and popular items if displayed for sale to the travelling public". Substantially the same

(Testimony of Warren W. Dunnell.)

statement appears on these other publications which are shown to have been issued during the period from 1939 to 1945.

The Court: What dates, did you say?

Mr. Johnston: They are not all dated, but there are the dates 1939 and 1942 on them.

I will offer these in evidence.

The Court: Very well.

(The circulars in question, previously marked as Defendant's Exhibits O, P, R, S and Q for Identification, were thereupon received in evidence.)

Q. (By Mr. Johnston): You testified, I believe, Mr. Dunnell, [92] that you first used the product Safe Way Toilet Seat Covers in October, 1933?

A. That was when I first adopted and used the name.

Q. In fact, at that time you were employed as the representative on the Pacific Coast of Morton Manufacturing Company, were you not?

A. No, I was in business for myself.

Q. Prior to that time, before you originated that product, you had a product known as "Sani-Gard".

Q. For Morton Manufacturing account?

A. I was an independent operator buying and selling on my own account.

Mr. Johnston: I ask this contract be marked for identification.

(Testimony of Warren W. Dunnell.)

(The contract in question was thereupon marked Defendant's Exhibit T for Identification.)

Q. (By Mr. Johnston): Showing you Exhibit T for Identification, I ask you if that is your signature at the end of it?

A. Yes, I believe this is my signature.

Q. That is the contract, is it not, under which you were distributing Sani-Gard covers?

A. No, we never carried out the provisions in this contract as set out in this contract. This provided that I would sell this product, the product put out by the Morton Manufacturing Company under the name "Sani-Gard" as their product, taking [93] orders for them. That arrangement was not feasible at all. It developed that it was not a satisfactory way to do that, so I never did take any orders in the name of Morton Manufacturing Company as this contract sets out.

Q. You did, however, pay the Morton Company for the use of its product, did you not?

A. No, I bought it from the Morton Company and sold it on my own account.

Q. But you made to the Morton Manufacturing Company payment for each item you sold, on the merchandise?

A. That I bought from them. Later there was a different arrangement.

Mr. Johnston: I will offer this contract in evidence.

(Testimony of Warren W. Dunnell.)

The Court: What is the relevancy of this?

Mr. Westall: It is incompetent, irrelevant and immaterial, if your Honor please.

Mr. Johnston: I am trying to show he was actually representing Morton Manufacturing Company at this time when he claims he adopted and used this name "Safe Way".

The Court: What difference does it make?

Mr. Johnston: In order to be entitled to a registration of the name "Safe Way" he must be the owner and not using it for somebody else. Actually this very same product was registered at about that time by the Morton Manufacturing Company under the Federal Trademark Act. That registration was for [94] registration of the cabinets, as I will show your Honor in a minute.

The Court: Whose registration is it?

Mr. Johnston: Morton Manufacturing Company of Chicago, who I said this man represented, and he was simply representing them and has represented them in his handling of the "Safe Way" product. Whatever claim he has is theirs and nothing else, and this entire claim of his is based on fiction.

The Court: You mean this article, this toilet seat cover, was put out by this firm in the east under a different name and then he sold it under that name, and he is now selling it under the name of "Safe Way"?

Mr. Johnston: Yes, now with a new name. The name was originated by him as their representative.

(Testimony of Warren W. Dunnell.)

The Court: What is the name of this concern?

Mr. Johnston: The Morton Manufacturing Company.

The Court: Did that appear in the proceeding in the Patent Office?

Mr. Johnston: Apparently they haven't opposed it, as far as I know. There is in evidence and I would like to call your Honor's attention to the registration of the name in favor of the Morton Manufacturing Company for these toilet seat cover dispensing cabinets.

The Court: Do you assert that you are entitled in this [95] proceeding in this matter to make a claim of what someone else is entitled to?

Mr. Johnston: I think I am entitled to show anything which prevents the name being registerable to this man. In other words, they are asking this Court to make an order on the Patent Office to register this name.

The Court: Did the Patent Office deny this application on the grounds that someone else other than the plaintiff was the one who was entitled to this?

Mr. Johnston: So far as I know, this matter was not called to their attention and their decision was based solely upon the name with which your Honor is familiar.

Mr. Westall: Mr. Dunnell adopted that name and used it. We have many letters and we still have letters in the file where Morton Manufacturing Company agreed to make the cabinet for him and



(Testimony of Warren W. Dunnell.)

congratulated him on the selection of the name and his advertising and talked about the work that was being done for them and work they were doing for him on the Safe Way covers. Then, without his knowledge, as he testified on the deposition and will testify now, they applied for and registered that for cabinets which they made for him and under his order after he adopted the name and after he asked them to hurry up with the cabinets and fill his orders, which they had no right to do.

The Court: Is the trademark claim for use on the cabinets? [96]

Mr. Westall: On the covers and not the cabinets, nets.

The Court: That was denied by the Patent Office?

Mr. Westall: Yes, he was applying for trademark on the covers only and not the cabinets and that doesn't have anything to do with the case. Naturally, not being applied for, they didn't assign that registration against him.

The Court: I would like to see the application for the trademark.

Mr. Westall: It is Exhibit 1.

Mr. Johnston: It was Exhibit B in the first exhibit.

Mr. Westall: It is Exhibit 1 here in evidence now.

The Court: Yes, it is Exhibit 1 here. This application does not have anything to do with any cabinets, Counsel.

(Testimony of Warren W. Dunnell.)

Mr. Johnston: Your Honor, may I call your attention to the cabinet included in the deposition papers? This isn't in evidence yet, but this is the way Mr. Dunnell dispenses his product. He places this cabinet with the name "Safe Way" written on it in the rest room behind the toilet.

The Court: But Counsel, irrespective of that, the only matter before this Court is the action of the Commissioner upon this patent application. This application as I read it is for the use of this trademark on toilet seat covers.

Mr. Johnston: He does not use it on the covers. This is the way he uses it——

The Court: You say it is a trademark granted to the [97] Morton Manufacturing Company for that use. Did you file an intervention proceeding to the Morton Manufacturing Company when they applied for that trademark?

Mr. Johnston: We didn't know about it at that time.

The Court: So they have an existing trademark for use on the cabinets.

Mr. Johnston: As shown by the evidence. What I am showing, or attempting to show, is that Mr. Dunnell does not own this claim that he is making that everything he did was as the representative of Morton Manufacturing Company. That is shown in part by the contract I have just offered. It is shown in part by Morton's registration and supplemented by the way he actually uses the name.

Mr. Westall: You must remember in the first

(Testimony of Warren W. Dunnell.)

place it has not anything to do with the case. In the second place the registration by Morton was without his knowledge and he had adopted the title to the name and trademark as it applied to containers.

The Court: Counsel, it isn't clear to me how you can complain if the plaintiff in this case infringed on a trademark of the Morton Manufacturing Company. What concern have you on that? All that you can complain about is whether or not this application should or should not have been granted by the Patent Office for use of this name on the seat covers. If the plaintiff uses the cabinets that have this [98] trademark on them and upon which somebody else has been granted a trademark, what is your interest in that matter?

Mr. Johnston: He has alleged in his complaint that he in effect owns this by prior adoption and use. What I am trying to show is that he didn't adopt and use it for himself, that he did so simply as the representative of another person.

Mr. Westall: That is not true and if he asked the question he will explain that fully.

The Court: On May 9, 1942, when this application was filed, you say he was acting in filing that application for someone else?

Mr. Johnston: No, he was unquestionably acting for himself, but the allegation in that application and in the complaint in this case that he adopted and used and owns the name is not true and I am

(Testimony of Warren W. Dunnell.)

trying to disprove that. I think that allegation is not warranted.

The Court: You are presenting evidence to show that the plaintiff did not adopt and did not use the trademark "Safe Way" on toilet seat covers?

Mr. Johnston: He was simply acting as the representative of another.

The Court: I think you should be permitted to show he was acting in the representative capacity for someone else when he did that. [99]

Mr. Johnston: Thank you, your Honor. I will proceed, if I may.

The Court: You had me confused, because I don't see the connection with this to the trademark.

Mr. Johnston: I shouldn't have brought that up at this time. My only point was this, that the fact that these other people have it is in further support that he was not acting for himself.

The Court: Have you anybody from that company here to testify?

Mr. Westall: He could have taken depositions if he wanted.

Mr. Johnston: I have offered this contract dated May 2, 1932, which in terms covers the period from May 2, 1932, to the same date in 1934, between the Morton Manufacturing Company and Warren W. Dunnell, covering his representation of them out here.

The Court: It may be marked in evidence.

(Testimony of Warren W. Dunnell.)

(The document which was previously marked Defendant's Exhibit T For Identification was thereupon received in evidence.)

Mr. Johnston: It is your contention you originated the name "Safe Way" October 25 or October 28, 1933, is that correct?

A. That is the first time I wrote to the Morton Manufacturing [100] Company about it, yes.

(The letter in question, dated October 26, 1933, was thereupon marked Defendant's Exhibit U For Identification.)

Q. (By Mr. Johnston): I hand you a letter dated October 26, 1933, marked for identification as Defendant's Exhibit U, and ask you if you wrote that letter and if that is your signature at the end of it.

The Court: Counsel, of course I am not sure, as I have never had a case of this kind before, but I am not sure but what a matter of evidence of this nature should not be re-referred to the Patent Office for consideration. You are raising matters that were not presented to the Patent Office at all that are entirely different issues than those on which the Patent Office decided the matter. While it is true that the plaintiff may bring this de novo action under the statute, I am wondering whether or not it would be proper for the Court to consider in this proceeding this patent phase of the matter that you are now presenting, whether it would not be barred



(Testimony of Warren W. Dunnell.)

by reason of the fact that it was not presented in the Patent Office. It is a point that I don't know whether has been considered with other points or not, or whether I have given consideration to it or not. I want to hear evidence material to the case, but I am wondering whether in proper equitable proceeding here that you can be permitted to submit a case to the Patent Office on the use [101] of this name on the so-called "name theory" and then when the further proceeding is taken whether it be by way of appeal to the Court of Custom and Patent Appeals or to the proceeding that you can introduce an entirely new issue. It does not give the others an opportunity to meet that.

Mr. Johnston: The statute specifically states that additional evidence may be taken. Now, as I think Counsel and I agreed in our statements to the Court yesterday, in part this is an appeal from the Patent Commissioner. In other words, you are asked in this proceeding to reverse his determination. However, as I have just stated, the statute permits the submission of additional evidence. So for that first reason, that the statute does permit the submission of additional testimony I think this is proper; and for the second reason that an Appellate Court will, if the record supports it, sustain a judgment by a lower court, and you are the Appellate Court in this case, and the Patent Office is in effect the lower court. If in effect the lower court, the Patent Office, acted correctly, its decision will be sustained by your Honor. So if in fact it appears from the



(Testimony of Warren W. Dunnell.)

record which is now made before this Court that he did not adopt and use it and does not own it, then it would certainly be proper to affirm the lower court, the Patent Office, even though you would disagree with its decision on the main clause.

The Court: Your argument I think is sound enough in a [102] general way, but it would seem to me offhand when you speak about additional evidence that the statute is referring to additional evidence in the same issues that were presented. I don't know how much the plaintiff was advised of this, but you might be taking the plaintiff completely by surprise and the whole theory of a man having an opportunity on each side to be able to meet the issues that are to be decided by the Court would be set at naught. Don't you think that when there is reference made to additional evidence that that means additional evidence concerning the same matters?

Mr. Westall: If the Court please, Counsel took a deposition which he filed, but he didn't offer it in evidence, of Mr. Dunnell. He had him produce everything and those things he did not have, he proved by secondary evidence. Now, in that deposition there were a number of letters and correspondence. We still have them. We have them in evidence here and even in the original evidence taken by the Patent Office, such letters were put in evidence.

(Testimony of Warren W. Dunnell.)

The Court: Let me interrupt you, Counsel. Are you prepared to meet this issue?

Mr. Westall: Oh, yes, we have already met it.

The Court: Then I see no harm going into this. Proceed, Counsel.

Q. (By Mr. Johnston): Is that your signature? A. Yes. [103]

Q. Was that letter written by you?

A. It was.

Mr. Johnston: I will offer that in evidence.

Mr. Westall: No objection.

(The document previously marked Defendant's Exhibit U For Identification, was thereupon received in evidence.)

Mr. Johnston: This is the letter written by Mr. Dunnell on October 25, 1933, just about the identical date on which he alleges he adopted and used this name.

The Court: Who is that letter written to?

Mr. Johnston: That letter is written to the Consolidated Cover Company in San Francisco.

Q. You make, in addition to "Safe Way" a product known as "Slide-Away?" A. Yes.

Q. And another one known as "Protex," is it?

A. That's right.

(Sample of cabinet and covers sold by plaintiff was marked Defendant's Exhibit V For Identification.)

Q. (By Mr. Johnston): Handing you Exhibit

(Testimony of Warren W. Dunnell.)

V For Identification, I ask you if this is an example of the cabinet and covers sold by you under the name "Safe Way." A. That's correct.

Q. And the cardboard and carton in which you packed them? A. That's correct. [104]

Q. And it is true, is it not, that the name "Safe Way" does not appear on the cover?

A. The tissue paper cover itself doesn't have it on.

Q. And this cabinet is installed in the rest rooms behind each toilet unit, is that correct?

A. Not only behind each toilet unit; sometimes it is on the door or outside of the stall, but generally speaking, it is behind each toilet unit.

Q. And the name "Sani-Gard Company" does not appear on this cabinet?

A. The usual practice of my—

Q. Will you just answer the question yes or no?

The Court: Well, that is self-evident.

Q. (By Mr. Johnston): The only name that appears to the public is the name "Safe Way," is that correct? A. That's correct.

Mr. Johnston: I will offer this in evidence.

The Court: It may be admitted.

(Thereupon Defendant's Exhibit V, having been previously marked For Identification, was received in evidence.)

Mr. Johnston: I think that is all. Your Honor, I have just one more witness.

The Court: Suppose we withdraw Mr. Dunnell at this time and you may call your other witness,

and Mr. Westall can take up, then, when Counsel has concluded with the other [105] witness.

Mr. Johnston: Very well, your Honor.

E. R. CREBBS

called as a witness on behalf of the defendant, and having been first duly sworn, testified as follows:

The Clerk: Will you state your name to the Court?

A. E. R. Crebbs.

Direct Examination

By Mr. Johnston:

Q. What is your address, Mr. Crebbs?

A. 15 Williams Avenue.

Q. San Francisco? A. San Francisco.

Q. What is your business?

A. Paper converters, toilet seat covers.

Q. What is the name of your company?

A. Consolidated Cover Company.

Q. What position do you hold in that company?

A. Vice-President and General Manager.

Q. How long have you been in the toilet paper and seat cover business? A. Since 1933.

Q. Could you state to the Court in general figures what your daily production of toilet seat covers is?

A. At the present time about one million covers a day. [106]

Q. How many days a week?

(Testimony of E. R. Crebbs.)

A. Five days week.

Q. Throughout the year?

A. Throughout the year.

Q. With the exception of the usual holidays, I suppose?      A. Yes.

Q. And each of your covers normally in being distributed to the public passes through a dispensing unit, as I understand it?

A. That's right.

Q. Similar in general to this Exhibit V?

The Court: You mean it is put out in a cabinet form?

The Witness: Yes, one cover is in a roll in a metal cabinet and another cover is in a paper dispenser.

Q. (By Mr. Johnston): Can you state approximately how many covers go through on the average dispenser per year?

A. Between eight and ten thousand covers.

Q. A year?      A. A year.

Q. How many dispensers in general do you turn out a year?

A. You mean the metal dispensers?

Q. Yes, the cabinets?

A. Well, probably twenty-five to thirty thousand.

Q. Mr. Crebbs, in your business do you produce these covers for sale in stores? [107]

A. One cover, yes.

Q. Have you done that over a period of years?

A. I should correct that. We have had a small Travel-Aid packet that goes back to when this

(Testimony of E. R. Crebbs.)

company started to about 1926, and another cover we put on about seven years ago is also handled as a resale item.

The Court: You mean that is a package of seat covers that somebody can buy and take with him, is that the point?

The Witness: Yes.

Q. (By Mr. Johnston): As I understand it, that isn't a large item, but it has been a continuous item in your business, is that correct?

A. Yes.

Q. Now, Mr. Crebbs, can you indicate to the Court the Potentialities of this seat cover business, whether the market is pretty well supplied or whether the field is just beginning?

A. It hasn't been touched.

Q. Do you know Mr. Warren Dunnell?

A. I met Mr. Dunnell, yes.

Q. As I understand it, you put out a product named "Slip-Away," or you did in the past?

A. We did at one time.

Q. After you had come out with that product, did he come out with a product under a similar name?

Mr. Westall: That is entirely irrelevant to this case. [108]

Mr. Johnston: They have introduced their reputation and business practices, and we should be in a position to meet it.

The Court: I think that is immaterial. There are controversies that may have taken place with



(Testimony of E. R. Crebbs.)

other persons, but they are not material here. I have enough to do to decide this case without trying to decide some other case.

Mr. Johnston: I am not going to introduce any evidence of any controversy. This is an unfair competition case in essence and we are entitled to show this plaintiff has been guilty of unfair competition in other cases bearing on his reputation and what damage can be done if he is allowed to register and use this name.

The Court: Then they might go into the fact that Safeway had trouble with its employees and has labor troubles and somebody does not like Safeway, and so forth. It could develop into all kinds of side issues. I don't think that is an element that has anything to do with this case. Somebody may not like your client or this gentleman may not like the plaintiff or thinks he has conducted himself in the past in an improper manner; but what has that to do with the basic question as to whether or not this trademark can be registered?

Mr. Johnston: It shows potential injury to us.

The Court: How can you be injured because the witness [109] on the stand may have a complaint against the plaintiff? On the other hand, he could come along and show that somebody has complaints against the Safeway. I am not saying they have, but I point that out to show how we could get into lots of side issues here.

Suppose you state what you want to show.

Mr. Johnston: We propose to prove and offer

(Testimony of E. R. Crebbs.)

to prove that shortly after, or at some time after the Consolidated Cover Company with which Mr. Crebbs is connected put on the market and had on the market its product known as "Slip-Away" Seat Covers. Mr. Dunnell came out with his "Slide-Away" Covers; that this cover was very similar to the "Slip-Away" Cover produced by Mr. Crebbs' concern, that when Mr. Crebbs changed——

The Court: You mean the name was similar?

Mr. Johnston: I think that speaks for itself, but it was similar in appearance also, and when Mr. Crebbs of the Consolidated Cover Company changed the structure of a portion of his product, namely, the roller on which it was fixed, a similar change was made in "Slide-Away," and when he changed the color of that roll, a similar change was made in "Slide-Away"; and when Mr. Crebbs produced a product called "Protecto" and Mr. Dunnell came out with a product known as "Protex."

The Court: Counsel, it was stated to me that the [110] plaintiff has a patent for this seat cover. Am I correct about that?

Mr. Johnston: Yes, that was stated to you.

The Court: Is there any dispute about that?

Mr. Westall: No, it is in evidence.

Mr. Johnston: I think we can concede that, your Honor. However, wholly apart from that, even if it were patented, it would not be proper or possible for Mr. Dunnell to copy Mr. Crebbs' product in various other particulars.

The Court: But he has filed an application to

(Testimony of E. R. Crebbs.)

put on toilet seat covers the name "Safe Way" and he has a patent for those seat covers. What concern is it of mine to inquire into controversies that may have existed between the plaintiff and the witness on the stand or his company in other matters? I am not deciding the reputations of the parties here, am I?

Mr. Johnston: I think your Honor has to consider the damage that may occur to us because of his business practices.

The Court: Because of some other actions on his part?

Mr. Johnston: Simply because of his business practices.

The Court: I hold that is immaterial to his case. You made your offer of proof and our discussion indicates your purpose and I hold it is incompetent, irrelevant and immaterial. [111]

Mr. Johnston: You may cross-examine.

The Court: Are there any questions you wish to ask?

Mr. Westall: Just one or two questions.

#### Cross-Examination

By Mr. Westall:

Q. You have been a competitor of Mr. Dunnell, haven't you, for a good many years?

A. I couldn't hear you.

Q. You have been a competitor of Mr. Dunnell for several years, haven't you? A. Yes.

Q. How many years?

A. We went in in 1933 and I think Mr. Dunnell

(Testimony of E. R. Crebbs.)

was in in 1932. Our cover has been made since 1926.

Q. Could you say what your annual sales of toilet seat covers were in the year 1946?

A. Is that necessary that I give our sales information?

Q. You already told how many you make.

Mr. Johnston: It is simply for the purpose of showing the relevant size of Mr. Dunnell in the business and it doesn't seem necessary to go into figures.

The Court: You are making the same error that I held to be the situation in the case of your opponent. I don't want to hear about any controversies between the plaintiff and this company.

Mr. Westall: I was only cross-examining on his own [112] testimony that he has already made as to his amount of covers made and I want to check that by a few additional questions, is all.

The Court: Can you give us the volume of sales without dollars? Is that a matter you feel free to disclose?

Mr. Johnston: That is, the number of covers, your Honor means?

The Court: How many do you sell? How do your sales in normal compare with production?

The Witness: Very good; roughly, twenty-four to twenty-five million a month. That runs quite regularly straight through each month.

The Court: In volume of sales?

Q. (By Mr. Westall): Are you still answering the same question as to 1940?

(Testimony of E. R. Crebbs.)

A. I couldn't answer that without looking at my records. I would say offhand it was practically the same as 1946, but I would have to check that.

Q. Have you stated the number of covers that you sell approximately a year—in 1946, say.

The Court: He said twenty-five million.

Q. (By Mr. Westall): That represents how many tons of tissue paper made into toilet seat covers?

Mr. Johnston: If I am not mistaken, the evidence was a month and not a year, just to make this correct. [113]

Q. (By Mr. Westall): Was it twenty-five million a month you make?

A. Twenty-five million a month, correct.

Q. How many tons of tissue paper does that number of seat covers represent?

A. Is that necessary to go into the paper end?

The Court: What is the materiality of this?

Mr. Westall: I want to check whether these figures are correct as to so many tons of tissue paper.

The Court: What difference does it make? I don't care whether this man makes twenty-five million or five million. That isn't an issue in this case.

Mr. Westall: I think that is all, your Honor.

Mr. Johnston: No further questions.

The Court: We will recess this case until two o'clock this afternoon, gentlemen.

(Thereupon a recess was taken until two o'clock p.m.) [114]



Afternoon Session, Thursday, March 13, 1947

2:00 P.M.

WARREN W. DUNNELL

recalled as a witness on behalf of the defendant;  
previously sworn:

Cross-Examination

By Mr. Westall:

Q. What were your business relations with Morton Manufacturing Company at the time of your adoption and first use of the trademark "Safe Way" as applied to toilet seat covers?

A. I had an arrangement with the Morton Manufacturing company whereby I sold a paper toilet seat cover that they manufactured as well as dispensing cabinets. That was in the nature of an arrangement whereby they gave me the exclusive sales representation in the State of California. The agreement was that they would sell to no one else in that territory.

Q. You were not acting as their agent in taking orders in their name?

A. No, although the contract that was put in evidence says something to that effect, that arrangement was never carried out. In other words, the manner in which they proposed that I carry on that business was not satisfactory in this particular territory. So we never carried it out in that way, and we did carry on business on the basis that I as an [115] independent contractor buying mer-



(Testimony of Warren W. Dunnell.)

chandise from them, paying for it and reselling it at prices which I established.

Q. Did the Morton Manufacturing Company at any time suggest to you the adoption and use of the trademark "Safe Way" as applied to toilet seat covers?      A. No, they never did.

Q. Will you explain, please, briefly the circumstances of your adoption and first use of the trade mark "Safe Way" as so applied with relation to the Morton Manufacturing Company?

A. Along in the latter part of 1933 the Morton Company had a toilet seat cover which they were proposing to put on the market under the trade name of "Kleen-Seat." They sent me samples of that particular product, both as to respective paper covers and dispensing cabinets, and from my experience in the seat cover business up to that time and my experience with the "Sani-Gard" cover which I had started to first sell. I could readily see that this cover which they were going to attempt to market under this trade name "Kleen-Seat" was not satisfactory, both with respect to the paper toilet seat cover or with respect to the dispensing cabinet; and also with respect to the trade name that they had decided to use. So I wrote to them to that effect saying that I did not feel that the cover that they had designed was satisfactory. I don't feel that the dispensing cabinet that they had [116] submitted as a sample was satisfactory and I was not at all satisfied with the trade name "Kleen-Seat"—

Mr. Johnston: Excuse me, your Honor, I don't

(Testimony of Warren W. Dunnell.)

want to slow up this thing, but if the witness can refer to written documents that would be the best evidence.

The Court: Yes, if you are intending to put the letter in, you may do that as that is the best evidence, but if you are going to have the witness give an account of his relations with this company, it shouldn't consist of what he thought unless the documents are offered. So I will strike that part of the testimony as to what he thought.

Mr. Westall: Yes, your Honor.

Q. Let me ask you this: Did you have a carbon copy of the original letter you wrote to them at that time that you last referred to?

A. Yes, I believe I have.

Q. Where is it?

A. I believe it is in evidence.

The Court: If it is in evidence you can refer to it and that will save time.

Mr. Johnston: If it is in evidence it speaks for itself.

Mr. Westall: Yes, but we want to know what it is.

The Court: Is this the letter you are referring to, that your Counsel has just handed you?

The Witness: That is correct, yes, sir. [117]

The Court: Let me see the letter.

Mr. Westall: There are only certain parts of it that are pertinent.

The Court: Go on with your examination. I think the question was that he was requested to

(Testimony of Warren W. Dunnell.)

state the circumstances under which he adopted the name "Safe Way."

Mr. Westall: Yes.

The Court: Had you completed your answer?

The Witness: No, I had not completed my answer.

The Court: Go ahead and complete your answer, then.

The Witness: So, as a result of my objections I sent proposals in my correspondence that I much preferred to use another trade name. I preferred to redesign the type of cover and dispensing cabinet and as a result of that I sent them orders for a new type of dispensing cabinet which I called—asked them to label with the trade name "Safe Way." I also suggested a change in the manner of making the toilet seat covers which they had submitted as samples as not being satisfied, and asked them to be labeled "Safe Way."

Mr. Johnston: Same objection: he is referring to writings he made.

The Court: Yes, I will sustain the objection.

The Witness: I have the orders I have referred to and they are in evidence.

The Court: Counsel can call my attention to the documents. [118]

Mr. Westall: I will show you this. It is already in evidence and already explained. This is the original order for the first two "Safe Way" cabinets which he referred to. Here is a letter that Morton wrote on November 20 referring to the order.

(Testimony of Warren W. Dunnell.)

Mr. Johnston: Is that in evidence?

Mr. Westall: Yes, that is in evidence as Dunnell Exhibit H, which shows an acknowledgment by the Morton Manufacturing Company of his right to that trademark and to the cabinets. I don't believe Counsel has offered in evidence a deposition that was taken of Mr. Dunnell in Los Angeles a few days ago on the 28th of February, and we have here additional letters. Counsel did not issue a subpoena duces tecum, but he told us what he wanted us to give him, everything, and he requested that at that time and if Counsel is not going to put that in evidence, all of which we have given him, we will offer the deposition in evidence.

The Court: Do you wish to offer the exhibits or the deposition?

Mr. Westall: We wish to offer the deposition and the exhibits, together with the letter that we refer to.

The Court: Which letter is that?

Mr. Westall: That is another letter from Morton Manufacturing Company that Counsel fished out and which is also highly pertinent along the same lines. [119]

The Court: Suppose you take the letter you have reference to and offer it in evidence, if you wish.

Mr. Westall: Yes, we can offer the deposition in evidence if there is no objection to it.

Mr. Johnston: I have no objection.

Mr. Westall: Together with the other exhibits.

(Testimony of Warren W. Dunnell.)

Among other things there is a trademark registration in the State of California with the word "Safe Way" that the applicant got in 1937 without any objection, and so there are a number of things——

The Court: All right, let the deposition and the exhibits be marked in evidence.

The Clerk: May they be deemed in evidence rather than marking them? We usually follow that practice. They are filed as a part of the exhibit.

Mr. Westall: Yes.

The Court: Yes, they may be deemed in evidence.

Q. (By Mr. Westall): Have you any other letters relating to the filling of your orders for "Safe Way" cabinets?

A. Yes, I have some other photostatic copies of letters.

Q. Will you produce them?

A. Yes, here are three photostatic copies of letters: one is dated May 15, 1934; another one, June 7, 1934; and the other is dated February 4, 1935, all referring to furnishing me with my "Safe Way" dispensing cabinets and literature. [120]

The Court: These are not part of the record?

Mr. Westall: They are not part of the record yet. There are additional acknowledgments of Mr. Dunnell's right to the trademark. While Counsel is examining the letters there is one part of the deposition that is highly pertinent on the present inquiry.



(Testimony of Warren W. Dunnell.)

The Court: You'd better give Counsel an opportunity to look at those letters.

Mr. Westall: We perhaps had better have these letters marked for identification before we proceed.

The Court: Are you going to offer them in evidence?

Mr. Westall: Yes.

The Court: Is there any objection?

Mr. Johnston: I don't think they are in any way relevant to the issues.

Mr. Westall: They are highly relevant, because they constantly acknowledge the trademark and congratulate him on the trademark and his advertising, and all that sort of thing.

The Court: You'd better let me look at them.

Mr. Johnston: I think your Honor will see they are entirely consistent with the agency theory that we have advanced.

The Court: They may be admitted. Do you wish them marked separately, or as one exhibit? [121]

Mr. Westall: They can be offered as one exhibit, I suppose, pinned together.

(The photostatic copies of letters dated May 15, 1934, June 7, 1934, and February 4, 1935, were thereupon received in evidence and marked collectively as Plaintiff's Exhibit No. 6.)

Mr. Westall: In this deposition at the time of the reading and signing, after reading the deposition the witness found it necessary to make a cor-



(Testimony of Warren W. Dunnell.)

rection and an explanation. This correction and explanation is as follows:

“In connection with my deposition taken February 28, for Civil Action 26,230-G, I should like to make one correction, and also clarify my testimony in respect to my past relationship in the seat cover business with the Morton Manufacturing Company. The correction is at Line 6 and 7 on Page 65. Instead of this answer reading as it does, it should have read:

“‘No, my agreements that I had had with Morton were not a royalty basis.’”

He says that should have been, “No, my agreements I had with Morton were not royalty, but on a territorial arrangement.”

Then he goes on and says, “In order to clarify my testimony particularly in regard to the questioning beginning on the last line of Page 72, I should say because of your repeated [122] references to the word ‘royalty’, beginning at Page 6 of my deposition to Page 72 and your usual correcting of it to substitute ‘sum of money’ instead of ‘royalty’ indicated very clearly that you have the impression that——”

The Court: That is all argumentative, Counsel.

Mr. Westall: It is to a certain extent, but it is still his explanation.

The Court: Well, it is similar to what he has testified to here.

(Testimony of Warren W. Dunnell.)

Mr. Westall: It is a little different.

The Court: I would rather you complete the testimony of the witness so I can get the facts.

Mr. Westall: I could go over the same thing by questions and answers, but I thought that this might be the easiest way to get at it. However, we will proceed as your Honor has directed.

The Court: It is not a question of my directing you, but it is a little confusing to me when you refer to these other matters. I would rather have both sides complete the factual matters you have to ask of the witness, such as these letters and documents.

Mr. Westall: Very well, your Honor.

Q. Has the Morton Manufacturing Company ever at any time protested to you in any way your use of the trademark "Safe Way" for either cabinets or toilet seat covers? [123]

A. No, they have not.

Q. Did you ever at any time put out any toilet seat cover for resale in stores?

A. Yes——

Q. That is, "Did you"?

A. Yes, I put out a very few.

Q. When and during what period did you put out any toilet seat cover for resale in stores?

A. About ten years ago I manufactured a very small quantity of covers made up in that way, that is, for resale in stores and have made an attempt ever since that time to try and dispose of seat covers in that way, although I have been unsuccessful. As a matter of fact, I still have a few of the covers I manufactured ten years ago.

(Testimony of Warren W. Dunnell.)

Q. Do you know about how many you manufactured at that time?

A. A very small quantity—maybe twenty or thirty.

Q. Have you made efforts during the last ten years to dispose of those covers to stores?

A. Yes, I have made an attempt to try and distribute them that way.

Q. And with what result?

A. With practically no result at all. They were not suitable, apparently, for distribution in that manner.

Q. Can you state what has been the latest attempt you have made in your effort to dispose of seat covers to stores? [124]

A. I made an attempt in the nature of writing some letters to stores such as Kress and Woolworth and Safeway Stores in 1942, and those letters are in evidence.

Mr. Johnston: The witness covered all this in his testimony yesterday.

Mr. Westall: That is true, but——

The Court: May I interrupt, Counsel?

Q. When did you first use the word "Safe Way" in connection with the seat cover?

The Witness: In the—the first sale I made was in December, 1933. I had used the word prior to that in correspondence.

Q. Where and how was that word used in the first sale or sales that you made?

(Testimony of Warren W. Dunnell.)

A. It was used in the carton containing the seat covers and on the dispensing cabinet.

Q. Both? A. Both, yes, sir.

Q. Where was the carton made, in the east, too?

A. No, I had it made in Los Angeles.

Q. The carton was made in Los Angeles and printed there? A. Yes.

Q. Did you call that the dispenser that came from the east, from the Morton Manufacturing Company?

A. That came from the Morton Manufacturing Company and the [125] other cabinet they had made especially for me had the name "Safe Way" on it.

Q. That was the first instance when you used the word "Safe Way" in the sale of seat covers?

A. That's right, sir.

Q. (By Mr. Westall): The Court has just referred to "cartons." Please state whether these exhibits which are already in evidence are the cartons which you refer to.

A. This document, Exhibit N, is a carton which I use to enclose one "SafeWay" dispensing cabinet. This carton is now Exhibit O and is a carton which I packed my "SafeWay" toilet seat covers in and it shows the number of covers in the carton and by whom it is manufactured.

The Court: So the record will be clear, these exhibit numbers are the exhibit numbers in the Commissioner's record?

Mr. Westall: Yes, your Honor.

Q. On all of your cartons in which you distrib-

(Testimony of Warren W. Dunnell.)

uted your product, did you always have your name on there, "Sani-Gard Company," or "Sales Company"?

A. "Sani-Gard Sales Company" when it applied to "Safe Way" toilet seat covers.

Q. In Defendant's Exhibit U, offered this morning, a letter from Sani-Gard Sales Company over your signature to the Consolidated Cover Company at Oakland, California, Counsel read a portion of the letter to you. Now, will you please [126] explain what that means, if it is not clear?

A. The explanation of that part of this letter is that I was the exclusive sales representative for the Morton Manufacturing Company in this territory for the seat covers.

Q. But it doesn't mention or have anything to do with "Safe Way" covers?

A. No, this is before the "Safe Way" covers——

Mr. Johnston: I think the letter speaks for itself, your Honor.

The Court: Let me see the letter.

&. (By Mr. Westall): When did you first hear of the registration by Morton Manufacturing Company of the name "Safe Way" as applied to cabinets? A. It was in 1942.

Q. That was long after it had been granted?

A. That's correct.

Q. Did you know they were going to file such an application for registration for your trademark?

A. No, I did not.

Q. Did you at any time prior to the time last



(Testimony of Warren W. Dunnell.)

referred to authorize the Morton Manufacturing Company to register the trademark in their own name?      A. No, I did not authorize them.

Q. When you discovered that they had without your knowledge registered the name as applied to "Safe Way" cabinets, what [127] did you do?

A. I wrote them a letter regarding the matter and told them I did not approve of their having done that.

Mr. Johnston: I think the letter should be produced. It is the best evidence.

The Court: Is the letter in evidence?

Mr. Westall: No, the letter is not in evidence. We searched for it, but could not find it. All the witness is doing is saying that he protested it and didn't agree to it.

The Court: That is what you want to bring out?

Mr. Westall: Yes, that is what I want to bring out.

The Court: Do you still do business with this firm?      A. No.

Q. How long is it since you have done business with this firm?      A. 1934 or 1935.

The Court: Oh, a long time ago?

A. Yes, a long time ago.

Q. (By Mr. Westall): Were your relations pleasant when you did business with Morton Manufacturing Company?

A. Yes, we got along very well.

The Court: Since that time you have manufactured your own dispensers and cabinets?



(Testimony of Warren W. Dunnell.)

A. Yes, sir.

Q. (By Mr. Westall): How did you happen after first having [128] Morton Manufacturing Company make your covers and cabinets decide to make them for yourself or have them made in this territory, in the Los Angeles territory or other places?

A. Our arrangement in the beginning was one where they were in the position of having the capital and facilities to manufacture an article of this kind and they did start at that time to manufacture that type of an article and I had no capital.

The Court: You mean by that if you did it yourself you could do it cheaper and make more money? Is that the point? That is why you quit them?

The Witness: No, the agreements I had was terminated because they discontinued the manufacture of the Sani-Gard toilet seat cover dispensing cabinet. The agreement I had with them was that they would furnish that to me and then they decided they preferred to discontinue that particular type of seat covering and cabinet.

Q. (By Mr. Westall): You then had to make arrangements of your own for that, is that right?

A. No, that was the termination of the relationship—

The Court: That was the termination of the relationship?

The Witness: Yes.

(Testimony of Warren W. Dunnell.)

The Court: But they did make dispensers for you under the name "Safe Way"?

The Witness: Yes. [129]

The Court: What caused you to discontinue your relations with them at that time?

A. After I could make my dispenser cheaper in Los Angeles.

Q. (By Mr. Westall): Did you also later find you could have your seat cover made cheaper here than you could in the east?

A. Yes, that is true.

Q. Now referring to Defendant's Exhibit T, the original contract, will you please state whether or not that truly represented the agency agreement or other agreement?

The Court: He has already answered that and explained it in great detail. He has gone into that in considerable detail.

Mr. Westall: That's correct. I believe that's all.

### Redirect Examination

By Mr. Johnston:

Q. Mr. Dunnell, did you receive a reply from Morton Manufacturing to your letter protesting their use of the name "Safe Way"?

A. I don't recollect of ever receiving any, no.

Q. I requested you to produce that document and you have looked for it and haven't found it.

A. I don't remember any request for producing a letter of that kind, no.

(Testimony of Warren W. Dunnell.)

Mr. Westall: Are you referring to the last request for production that you made after you left Los Angeles?

Mr. Johnston: I am referring to the request made by [130] wire.

Mr. Westall: You made it by wire and we left Los Angeles and didn't get it.

Mr. Johnston: I see.

Q. Do you recognize that as a copy of the letter you received in response to your letter to them? Here is a copy, Mr. Westall.

Mr. Westall: Thank you.

The Witness: Well, this is a copy of a letter which was in the nature of a reply indirectly from Morton Manufacturing Company to this letter I mentioned that I sent them protesting their registration of the name "Safe Way."

Q. (By Mr. Johnston): Do you remember that now?

A. I do remember receiving something of this kind, yes.

(The copy of letter of May 6, 1943, from Morton Manufacturing Company to Mr. Dunnell, was thereupon marked Defendant's Exhibit W For Identification.)

Mr. Johnston: If your Honor please, we have given Counsel a notice to produce the written contracts between Mr. Dunnell and Morton Manufacturing Company. I have also given notice to produce the correspondence between him and Morton

(Testimony of Warren W. Dunnell.)

with respect to his protest of their use of the name in 1942 or 1943. They have not produced them and they state they cannot find them. The witness just identified them as correspondence which I would like to read purporting to be [131] from the attorneys, by Morton Manufacturing Company, in response to Mr. Dunnell's protest.

The Court: Let me see that.

(A document was handed to the Court.)

The Court: I am of the opinion that both the letter and the protest referred to in this letter are argumentative statements of both parties to this particular controversy, if there was a controversy between the plaintiff and the Morton Manufacturing Company, but you may have it marked in evidence.

(The letter in question, previously marked Defendant's Exhibit W For Identification, was thereupon received in evidence.)

The Court: Are there any further questions of this witness?

Mr. Johnston: Just a few more questions:

Q. Mr. Dunnell, you testified a few moments ago that you always used the name "Sani-Gard" in connection with your product, is that correct? Whether you did or did not, the point is that the public when they use your product normally only see the word "Safe Way," which is on the cabinet, isn't that correct? A. Yes.

Mr. Johnston: I think that's all.

(Testimony of Warren W. Dunnell.)

Mr. Westall: That's all. [132]

The Court: Is that all of this witness?

Mr. Westall: Yes.

The Court: All right.

Mr. Johnston: At this time, if your Honor please, I would like to offer a certified copy of a decree of the Superior Court of the State of Oregon for the County of Multnomah, which decree shows the patent on which Mr. Dunnell relies was sold in partial satisfaction of a judgment by the Sheriff.

(The document referred to was thereupon marked Defendant's Exhibit X For Identification.)

Mr. Westall: We object to that as totally irrelevant to this suit. We can stipulate there was such a suit, and it was sold for judgment, but Mr. Dunnell brought it. But that is totally irrelevant to this case.

The Court: Do you claim that he is not the owner of the patent?

Mr. Johnston: The best evidence we could find is that he is not.

The Court: Is there anything in the Patent Office record that the ownership has been changed?

Mr. Johnston: I took Mr. Dunnell's deposition a week or so ago in Los Angeles and he testified to this suit up in Oregon and I wrote up to get a copy of the judgment to find out what it was all

(Testimony of Warren W. Dunnell.)

about and I haven't been able to [133] get information from the Patent Office, so I don't know.

Mr. Westall: Furthermore, the record is not complete. It does not show what happened to that judgment.

Mr. Johnston: I have the entire document.

The Court: Does it show an execution sale?

Mr. Johnston: Yes.

The Court: In this execution sale was the patent sold?

Mr. Johnston: What it shows is that the patent together with the other property was assigned to this man Hearst as security for a time and this foreclosure suit was brought.

Mr. Westall: Counsel is stating what the record shows and what he concludes from it. I think his record is not complete, but I do think it is pertinent.

The Court: If this is going to be offered you have a right to go into the matter further then.

Mr. Westall: Then I will call Mr. Dunnell for a few questions.

The Court: I can see that if we keep going on this thing in this manner I am going to get involved in half a dozen lawsuits.

Mr. Johnston: That completes our case, your Honor.

Mr. Westall: If your Honor please, I am going to call Mr. Dunnell to the stand again. [134]



## WARREN W. DUNNELL

recalled as a witness on behalf of the plaintiff; previously sworn:

## Direct Examination

By Mr. Westall:

Q. Mr. Dunnell, you were the defendant in this case as described in this Defendant's Exhibit X, were you not? A. Yes.

Q. After that judgment, will you tell me what transpired as to the patent?

A. There was a sheriff's sale in accordance with the Court's order for all the mortgaged assets at that time and I brought them all the assets that the sheriff set forth.

The Court: Did you attend the sale yourself?

The Witness: Yes, I attended the sale myself.

Q. (By Mr. Westall): So you are now the owner of the Dunnell patent?

A. I always have been the owner. I merely assigned it for purposes of security to this man Hearst.

Mr. Westall: I believe that's all.

The Court: Any questions?

Mr. Johnston: No further questions.

The Court: Does that conclude all of the evidence in the case?

Mr. Johnston: Yes, your Honor. [135]

Mr. Westall: Yes.

The Court: You have all the evidence you want in the case?

Mr. Westall: Yes, I think we have more than enough.

The Court: Do you wish to argue this case?

Mr. Westall: Yes, but first I wish to make a motion for the dismissal of the counter claim. I believe that I can very briefly show the Court that that counter claim cannot stand and must be dismissed. I have the authorities here.

The Court: You mean the whole case is submitted to me on the evidence, is it, both on the complaint and the counter claim?

Mr. Johnston: It is my understanding the evidence introduced applies equally to the counter claim as well as the complaint.

The Court: The matter is then submitted, and if you don't have any motion to make on the counter claim I will decide the whole case.

Mr. Westall: The counter claim is in a department of its own so far as this motion to dismiss. In other words, there is a reason under the law why that counter claim cannot stand, which can easily be disposed of. The reason is they have alleged damages which was the only ground by which the counter claim could stand. We challenged that. We denied that in our answer, whether it involved \$3,000 or any other [136] amount and under the authorities which I shall cite, and they are all by the Supreme Court except one, if they tend to prove the jurisdictional amount, the case must be dismissed whatever it is, and I can dispose of that very quickly if your Honor will permit.

The Court: Isn't it the amount claimed that determines the jurisdiction?

Mr. Westall: No, that is wrong. They can claim the amount, but they have to prove the jurisdictional amount. It would be easy in any case to allege jurisdictional amount, but if the jurisdictional amount is challenged, then the burden is on the other side to prove it and we have raised that issue and challenged it in our pleading and they haven't attempted to prove any damages whatsoever, let alone \$3,000, exclusive of interest and costs.

The Court: I should like to hear the views of the defense counsel in that regard. I say that because I still have the same doubt and question in my mind that I expressed last evening as to whether or not under the law there is any relationship that is close enough to the use of the name and goodwill as attached to the name used by the defendant and the use of the name in connection with these toilet seat covers and being in doubt that the law so applies I think I should give the defendant the opportunity to argue that matter. My impression in this case is that the plaintiff [137] should prevail, that I feel that I may not have a clear enough concept of the law on that and so I should hear from Counsel.

(Thereupon argument was made on behalf of the respective parties to the Court.)

The Court: I would like very much to have you file written memoranda.

(Thereupon the case was submitted 30, 35 and 15.)

(Certified copy, Patent Application 453,099, marked Plaintiff's Exhibit 1; Patent Office Records marked Plaintiff's Exhibits 2 and 3; Exhibits before Patent Office marked Plaintiff's Exhibit 4; Record of Sales of toilet seat covers marked Plaintiff's Exhibit 5.) [137-a]

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PLAINTIFF'S EXHIBIT No. 1

Department of Commerce  
United States Patent Office

To all persons to whom these presents shall come,  
Greeting:

This Is to Certify that the annexed is a true copy from the records of this office of the Original Petition, Statement and Drawing; and the Notice of Publication, being Paper 13, in the matter of the Pending Application for the Registration of a Trade-Mark of Warren W. Dunnell, Serial Number 453,099, for Toilet Sea Covers.

Filed May 19, 1942.

In Testimony Whereof I have hereunto set my hand and caused the seal of the Patent Office to be affixed at the City of Washington, this thirtieth day of September, in the year of our Lord one thousand nine hundred and forty-six, and of the Independence

of the United States of America the one hundred and seventy-first.

[Seal]        /s/ CASPER W. OOMS,  
Commissioner of Patents.

Attest:

/s/ D. A. WILSON,  
Chief of Division.

Application No. 453099

[Main Division, U. S. Patent Office, May 19,  
1942.]

### PETITION AND STATEMENT

To the Commissioner of Patents:

Warren W. Dunnell, a citizen of the United States of America, residing at Los Angeles, California, and doing business at 3101 Pasadena Ave., Los Angeles, California, has adopted and used the trademark shown in the accompanying drawing for toilet seat covers, in Class 50, Merchandise not otherwise classified, and presents herewith five specimens showing the trademark as actually used by applicant upon the goods, and requests that the same be registered in the United States Patent Office in accordance with the act of February 20, 1905. The trade-mark has been continuously used and applied to said goods since October 28, 1933. The trademark is applied or affixed to the goods, or to the packages containing the same, by printing thereon or placing thereon a printed label on which the trademark is shown.

/s/ WARREN W. DUNNELL.

[Notation]: Cancelled 8/17/42.

## Declaration

State of California,  
County of Los Angeles—ss.

Warren W. Dunnell, being duly sworn, deposes and says that he is the applicant named in the foregoing statement; that he believes the foregoing statement is true; that he believes himself to be the owner of the trademark sought to be registered; that no other person, firm, corporation, or association, to the best of his knowledge and belief, has the right to use said trademark in the United States, either in the identical form or in any such near resemblance thereto as might be calculated to deceive; that said trademark is used by him in commerce among the several States of the United States; that the description and drawing presented truly represent the trademark sought to be registered; and that the specimens show the trademark as actually used upon the goods.

/s/ WARREN W. DUNNELL.

Subscribed and sworn to before me, a Notary Public, this 6th day of May, 1942.

[Seal]      /s/ EDWARD F. WESTALL,

Notary Public in and for County of Los Angeles,  
State of Calif.





APPLICATION  
No. 35-9099

**SAFE Q WAY-**

Produced by G.

MAR 21 1944

U.S. Patent Office

Produced by

Wm. H. D.

By Joseph E. Miller



[Letterhead]: Department of Commerce, United States Patent Office, Washington.

Joseph F. Westall  
608 South Hill Street  
Los Angeles 14, California

The application for the Registration of a Trade-Mark filed by Warren W. Dunnell, May 19, 1942, Ser. No. 453,099 in Class (37), (Safe Way and design), has been examined and passed for publication, in compliance with section 6 of the act authorizing the Registration of Trade-Marks, approved February 20, 1905.

The mark will be published in the Official Gazette of Mar. 21, 1944.

Any person who believes he would be damaged by the registration of this mark may oppose the same by filing notice of opposition, stating the grounds therefor, in the Patent Office within thirty days after the publication thereof, which said notice of opposition shall be verified by the person filing the same before one of the officers mentioned in section 2 of the act of February 20, 1905.

If no notice of opposition is filed within said time the Commissioner may issue a certificate of registration.

Copies of the Trade-Mark portion of the Official Gazette containing the publication of the mark may be obtained as soon as published at 10 cents each,

from the Superintendent of Documents, Government Printing Office.

Respectfully,

/s/ CONWAY P. COE,

Commissioner of Patents.

[Endorsed]: Filed Mar. 12, 1947. C. W. Calbreath, Clerk. By L. R. Elkington, Deputy Clerk.

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PLAINTIFF'S EXHIBIT No. 2

Department of Commerce

To all persons to whom these presents shall come,  
Greeting:

This Is to Certify that the annexed is a true copy from the records of this office of papers 1, 3, 5, 6, 7, 8, and 37, in the matter of Opposition Number 23,281, Safeway Stores, Incorporated, vs. Warren W. Dunnell, Trade-Mark for Toilet Seat Covers.

In Testimony Whereof I have hereunto set my hand and caused the seal of the Patent Office to be affixed at the City of Washington, this sixteenth day of October, in the year of our Lord one thousand nine hundred and forty-six and of the Independence of the United States of America the one hundred and seventy-first.

[Seal] /s/ CASPER W. OOMS,

Commissioner of Patents.

[Attest:]

/s/ D. A. WILSON,

Chief of Division,

Plaintiff's Exhibit No. 2—(Continued)

In the United States Patent Office  
Before the Examiner of Interferences

Opposition No. 23281. Safeway Stores, Incorporated, Opposer, vs. Warren W. Dunnell, Applicant.

Notice of Opposition

The Commissioner of Patents  
Washington, D. C.

Sir:

In the matter of an application for registration of the name "Safeway" for toilet seat covers, in Class 37, Paper and Stationery, Serial No. 453,099, filed May 19, 1942 by Warren W. Dunnell, doing business as Sani-Gard Cover Company, Los Angeles, California, which was published on March 21, 1944 in the Official Gazette, Volume 560, No. 3, page 400, the opposer Safeway Stores, Incorporated, of Oakland, California, believes it would be damaged by such registration, and it hereby gives notice of its intention to oppose the registration of said trade mark.

The grounds for opposition are as follows:

1.

The corporate name of the opposer is Safeway Stores, Incorporated, and it is a duly organized and existing corporation under the laws of the State



## Plaintiff's Exhibit No. 2—(Continued)

of Maryland. Opposer and its predecessors have been extensively engaged continuously since 1926 principally in the business of owning and operating retail grocery stores, under opposer's name "Safeway." Approximately 2,500 retail stores are now owned and operated by opposer, doing business as "Safeway" in the following states: Arkansas, Arizona, California, Colorado, District of Columbia, Idaho, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, Oklahoma, Oregon, South Dakota, Texas, Utah, Virginia, Washington, Wyoming.

## 2.

The name "Safeway" is the distinguishing and dominant part of opposer's name. Opposer's name "Safeway" has been and is now prominently displayed in signs on its stores and places of business, in newspaper advertisements, price tags, gummed tape, cash register receipts, invoices, paper bags, display cards, and other forms of advertising, in such manner and to such an extent that the opposer's name "Safeway" alone has become associated in the mind of the public with opposer, and the name "Safeway" by reason of such extensive and continuous use by the opposer over a long period of years has come to mean the opposer, and the public know and identify the opposer by the name "Safeway" alone. "Safeway" is a substantial part of the valuable good will of opposer.

## Plaintiff's Exhibit No. 2—(Continued)

## 3.

The name "Safeway" claimed by applicant, is identical to the name "Safeway" owned and in prior use by opposer and used by opposer in connection with the sale of merchandise in various classifications, including, particularly, paper products, such as toilet tissue, paper towels, paper napkins. The use by applicant of the name "Safeway" is likely to cause confusion or mistake in the mind of the public or to deceive purchasers as to the origin of such goods, and thereby cause irreparable damage to the good-will of the opposer's business in connection with which the opposer's name "Safeway" is extensively used.

## 4.

On or about August 16, 1939, the predecessor of opposer deposited with the Commissioner of Patents a certified copy of its corporate charter, showing its corporate name "Safeway Stores, Incorporated," and received certificate of deposit No. 4220 therefor.

## 5.

The unauthorized use by the applicant of opposer's name "Safeway" on goods such as toilet seat covers is likely to cause confusion or mistake in the minds of the purchasers or to deceive purchasers into believing that such goods are in some manner associated with or emanate from this opposer.

## Plaintiff's Exhibit No. 2—(Continued)

## 6.

The name "Safeway" sought to be registered by applicant consists merely in the name of the opposer corporation, or the distinctive, dominant portion thereof, not written, printed, impressed or woven in some particular or distinctive manner, or not associated with a portrait of an individual, and is therefore within the prohibition against registration of such name under Section 5(b) of the Act of 1905.

## 7.

The applicant, Warren W. Dunnell, is not the owner of the trade mark sought to be registered by him, and he was not entitled to the exclusive use thereof at the time of the filing of his application, nor at any other time.

## 8.

Attached hereto are specimens of the name "Safeway" as used by the opposer.

Wherefore, opposer prays that this opposition be sustained and that registration of the trade mark "Safeway" be refused to the applicant.

Please recognize as our attorneys in this proceeding the firm of Mida, Richards & Murray, composed of Lee W. Mida, Brayton G. Richards, and Alex-

Plaintiff's Exhibit No. 2—(Continued)

ander W. Murray, whose post office address is 537 South Dearborn Street, Chicago, 5, Illinois.

Respectfully submitted,

SAFEWAY STORES,  
INCORPORATED,

By /s/ R. E. FOOSHEE,  
Its Vice President.

April 6, 1944.

Verification

State of California,  
County of Alameda—ss.

R. E. Fooshee being first duly sworn, deposes and says that he is Vice President of Safeway Stores, Incorporated, the opposer mentioned in the foregoing Notice of Opposition; that he has read and signed the same, and knows the contents thereof; and that the same is true of his own knowledge, except as to the matters therein stated to be alleged upon information and belief, and as to those matters he believes it to be true.

/s/ R. E. FOOSHEE.

Subscribed and sworn to before me this 6th day of April, 1944.

[Seal]      /s/ B. A. CRETSER,  
Notary Public.

My commission expires 10/20/46.

## Plaintiff's Exhibit No. 2—(Continued)

[Letterhead]: Department of Commerce, United States Patent Office, Richmond 20, Virginia.  
Mailed May 4, 1944.

Opposition No. 23281. Safeway Stores, Incorporated, v. Dunnell. Application No. 453,099, Filed May 19, 1942, Published March 21, 1944, for Toilet Seat Covers.

A notice of opposition to registration of the above noted trade-mark was filed April 12, 1944, by Safeway Stores, Incorporated, Oakland, California, whose attorneys are Mida, Richards & Murray, 537 South Dearborn Street, Chicago 5, Illinois. A statement of the grounds therefor is forwarded herewith to Joseph F. Westall, 608 South Hill Street, Los Angeles 14, California, attorney for Warren W. Dunnell, 3101 Pasadena Avenue, Los Angeles, California.

Pleadings and procedure with respect thereto shall be governed by the Federal Rules of Civil Procedure (562 O. G.1). All papers when filed to be accompanied by proof of service upon the other party.

Answer due June 5, 1944.

It is noted that the specimens referred to in paragraph 8 of the notice of opposition have not been filed.

/s/ A. A. MACHEY,

Acting Examiner of Interferences,  
Room 212.

## Plaintiff's Exhibit No. 2—(Continued)

In the United States Patent Office Before the Examiner of Interferences. Opposition No. 23,281. Safeway Stores, Incorporated, Opposer, vs. Warren W. Dunnell, Applicant.

Commissioner of Patents  
Richmond 20, Virginia

Sir:

In response to the Office Action of May 4, 1944, of the Examiner of Interferences, and particularly to the last paragraph thereof wherein it is said, "It is noted that the specimens referred to in paragraph 8 of the notice of opposition have not been filed":

On May 9, 1944, as attorney for applicant, I received through the mail a purported copy of a response, dated May 6, 1944, of the Safeway Stores, Incorporated, through their attorneys, to Office Action or communication dated May 4, 1944, to the effect that opposer "files the specimens referred to in paragraph 8 of the notice of opposition," and that "a duplicate set of these specimens has this day been forwarded to attorney for applicant."

There seems to be some confusion in this response. Paragraph 8 only refers to "specimens," and we presume that the specimens referred to are such as are mentioned in Trade-mark Rule 56 which, so far as pertinent, reads, "Two specimens (or facsimiles) of the mark actually used by opposer, if



## Plaintiff's Exhibit No. 2—(Continued)

there be such, should be filed." We presume that this must mean the mark as actually used upon goods of opposer. Instead, however, of receiving any such specimens accompanying the response dated May 6, 1944, of Safeway Stores, Inc., we received one blank address label with the same "Safeway" on it, being a sticker for placing upon merchandise sent out by opposer, and labelled "Merchandise, Fourth Class Mail." We also received five sheets of advertising. Now the confusion referred to results from the fact that such advertisements are mentioned in paragraph 2 of the notice of opposition, and are not therein defined as "specimens." Paragraph 8 of such notice reads, "attached hereto are the specimens of 'Safeway' as used by opposer. We suggest also in clearing up this confusion and furnishing us with the specimens mentioned in said response of opposer to the communication of May 4, 1944, that opposer should inform us as to what particular goods or merchandise said specimens have been applied, and since when.

Inasmuch as the notice of opposition is not complete until we receive the "specimens," we request that opposer be required to send the specimens mentioned in said paragraph 8 of the notice of opposition, in order that we may fully move or answer as prescribed by the Rules of Civil Procedure.

Applicant consents to the filing by opposer of an amended and substituted notice of opposition to incorporate the above suggested additional averments.

## Plaintiff's Exhibit No. 2—(Continued)

In view of the uncertainty or ambiguity of the notice of opposition in the respects mentioned, and the incompleteness of the served copy, we respectfully request that the time for filing answer or otherwise moving under the rules be extended for thirty days, or for such time as the Examiner shall deem adequate.

Respectfully submitted,

/s/ WARREN W. DUNNELL,

By /s/ JOSEPH F. WESTALL,

His Attorney.

## Certificate of Service

I, Joseph F. Westall, attorney for Warren W. Dunnell, hereby certify that on this 16th day of May, 1944, I served a copy of the foregoing communication upon Mida, Richards and Murray, 537 South Dearborn Street, Chicago 5, Illinois, attorney of record for Safeway Stores, Incorporated, by regular mail, postage prepaid.

/s/ JOSEPH F. WESTALL.

Joseph F. Westall

(Registration No. 3894)

702 Wm. Fox Building

608 South Hill Street

Los Angeles 14, California

\* \* \* \* \*

## Plaintiff's Exhibit No. 2—(Continued)

[Letterhead]: Department of Commerce, United States Patent Office, Richmond 20, Virginia. May 20, 1944. Opposition No. 23281, Safeway Stores, Incorporated vs. Dunnell

The letter filed May 18, 1944, by the applicant, is noted.

In response thereto, it appears, as indicated in the letter filed May 8, 1944 by the opposer, that the address label and advertising sheets served upon counsel for the applicant are duplicates of those filed in the case by the opposer and are the "specimens" which are referred to in paragraph 8 of the notice of opposition. The opposer will be hereinafter correspondingly restricted in its proofs, and the submission of such specimens is deemed to constitute a sufficient compliance with the requirements of Trade-Mark Rule 56 relative thereto.

The time for filing an answer to the notice of opposition is extended to June 9, 1944.

/s/ A. D. BAILEY,

Examiner of Interferences,  
Room 212.

In the United States Patent Office Before the Examiner of Interferences. Opposition No. 23,281. Safeway Stores, Incorporated, Opposer, vs. Warren W. Dunnell, Applicant

## Answer to Notice of Opposition

Applicant, for answer unto the grounds of notice of opposition above entitled, alleges:

## Plaintiff's Exhibit No. 2—(Continued)

## 1.

Applicant is without knowledge or information sufficient to form a belief as to the truth of each and every of the averments of paragraph 1 of said notice of opposition, and upon such ground denies that opposer is a duly organized and existing corporation under the laws of the State of Maryland; and also denies that opposer and its predecessors have been extensively engaged continuously since 1926 principally in the business of owning and operating retail grocery stores under opposer's alleged name "Safeway"; and also denies that approximately 2,500 retail stores are now owned and operated by opposer doing business as "Safeway" in the states as listed in said paragraph; and

## 2.

Denies that the name "Safeway" is the distinguishing and dominant part of opposer's name, and denies that opposer's alleged name "Safeway" has been and is now prominently displayed in signs on its stores and places of business, in newspaper advertisements, price tags, gummed tape, cash register receipts, invoices, paper bags, display cards, and other forms of advertising in such manner and to such an extent that the opposer's name "Safeway" alone has become associated in the mind of the public with opposer; and denies that the name "Safeway" by reason of any such alleged extensive and continuous use by the opposer as alleged in

## Plaintiff's Exhibit No. 2—(Continued)

paragraph 2 of said notice of opposition over a long period of years has come to mean the opposer; and denies that the public know and identify the opposer by the name "Safeway" alone; and denies that "Safeway" is a substantial part of the valuable good will of opposer; and

## 3.

Denies that the name "Safe Way" claimed by applicant is identical with the name "Safeway" alleged to be owned and in prior use by opposer, and asserted to be used by opposer in connection with the sale of merchandise in the various classifications mentioned in paragraph 3 of the notice of opposition; and alleges that applicant is without knowledge or information sufficient to form a belief as to the truth of each of the remaining averments of paragraph 3 of the notice of opposition, and particularly as to the alleged prior use by opposer in connection with the sale of merchandise in alleged various classifications including particularly paper products such as toilet tissue, paper towels, and paper napkins, and upon such ground denies each of said allegations and demands strict proof thereof. Denies that the use by applicant of the name "Safe Way" is likely to cause confusion or mistake in the mind of the public or to deceive purchasers as to the origin of such goods and thereby cause irreparable or any damage to the good will of opposer's alleged business in connection with which the name "Safeway" is extensively



## Plaintiff's Exhibit No. 2—(Continued)

used; and, upon information and belief, applicant alleges that opposer has never applied the name "Safeway" to toilet seat covers and has never sold or distributed toilet seat covers in any of its stores under the name "Safeway" or any other name; and alleges that said product is not appropriate or suitable for distribution in grocery stores, such as referred to in said notice of opposition as being owned or operated by opposer, but that on the contrary said toilet seat covers have never been sold by applicant or, according to the knowledge and belief of applicant, by any other concern to the trade or public who purchase from such stores as those of opposer, but that said product has always been sold by applicant to large public organizations or institutions, such as oil service stations and others, for distribution as part of said service, and that such purchasers have long known of the source of manufacture of applicant's toilet seat covers to which the name "Safe Way" has been applied, and in no instance have any of them been confused or misled as to the source of applicant's manufacture. Alleges that applicant has, since his adoption and use of the name "Safe Way" as a trade-mark for toilet seat covers in his application referred to in the notice of opposition set forth, built up a large business and good will in the sale and distribution of toilet seat covers throughout the United States, and during all this time applicant's said product has never come into competition with any product sold by opposer, nor has opposer to any extent what-



## Plaintiff's Exhibit No. 2—(Continued)

soever become known as a distributor of toilet seat covers; and applicant alleges that opposer has built up no good will whatsoever in the sale or distribution of toilet seat covers, while applicant from the time of his said first adoption and use of said trademark has become widely known throughout every state in the union as a manufacturer and distributor of said product, and the source of such manufacture is well known to the special part of the public as above defined who purchase toilet seat covers. Applicant also denies that such paper products as toilet tissue, paper towels, and paper napkins mentioned in paragraph 3 of the notice of opposition complete in any manner with the sale of toilet seat covers of applicant's manufacture.

## 4.

As to each of the allegations in paragraph 4 of the notice of opposition: Applicant is without information or knowledge sufficient to form a belief as to the truth of such allegations, and on such ground denies each and every of the allegations of said paragraph 4. and demands strict proof thereof, and also demands oyer of said original certificate of deposit No. 4220.

## 5.

Applicant denies that the use by applicant of the name "Safe Way," alleged in paragraph 5 of the notice of opposition to be opposer's name, on goods such as toilet seat covers is likely to cause

## Plaintiff's Exhibit No. 2—(Continued)

confusion or mistake in the minds of purchasers or to deceive purchasers into believing that such goods are in some manner associated with or emanate from opposer, alleging, on the contrary, that applicant is a manufacturer of toilet seat covers and has never distributed and does not intend to distribute such seat covers in stores such as those of opposer for distribution to the public but, on the contrary, applicant only distributes such goods to large companies or institutions, public and private, which furnish such seat covers as part of the public service to users of toilet facilities without charge to such users, and that each and all of the purchasers of applicant's said toilet seat covers are, and have long been, fully aware of the source of manufacture, the same being plainly marked upon each package and, furthermore, being made clear to each of such purchasers by applicant's special advertisements, letters, billheads, and receipts, and moreover the part of the trade and public which purchases seat covers knows that such product is not, and has not been, sold by opposer;

## 6.

Denies that the name "Safe Way" sought to be registered by applicant consists merely in the name of the opposer corporation, or the distinctive dominant portion thereof, not written, printed, impressed or woven in some particular or distinctive manner; admitting, however, that it is not associated with a portrait of an individual and asserts,

## Plaintiff's Exhibit No. 2—(Continued)

on the contrary, that applicant's name "Safe Way" is printed or impressed in a particular distinctive manner with an accompanying design, and is therefore not within the prohibition (as alleged in paragraph 6 of the notice of opposition) against registration of such name under Section 5 (b) of the Act of 1905, or any other law; and

## 7.

Denies each and every of the allegations of paragraph 7. of the notice of opposition, alleging on the contrary that applicant is the owner of the trademark sought to be registered by him, and has been such owner and entitled to the exclusive use thereof since his first adoption and use of said name as set for in his petition and statement forming part of his application as identified in the first paragraph of the notice of opposition herein, i.e., October 28, 1933, the same having been extensively used in interstate commerce by applicant as applied to seat covers from and since his said first adoption and use of said name.

First Affirmative Defense (Laches and Estoppel):

For a further defense to said notice of opposition, applicant alleges:

## I

That applicant has extensively used the mark "Safe Way," as in his application for registration described, in interstate commerce since October 28, 1933, as applied to toilet seat covers, and pre-

## Plaintiff's Exhibit No. 2—(Continued)

vious to such adoption and use had sold seat covers extensively throughout the United States under the trade name "Sani-Gard" and had become well known throughout the United States as a manufacturer and/or distributor of toilet seat covers, always also using the word "Sani-Gard" as part of the fictitious name under which applicant at all such times operated and still continues to operate, and had built up an extensive interstate business and good will in the sale of said seat covers long before applicant's first adoption of the name "Safe Way" as applied to said product; that said name "Sani-Gard", under which fictitious name he had operated and still operates in the sale of said product, and had become widely known as the name of his business and as indicating the source of manufacture of his said product, and all of the purchasing public of such toilet seat covers, namely public and private corporations and concerns purchasing said seat covers for free distribution as part of their public service, knew of this source of manufacture; that when the name "Safe Way" was, as aforesaid, adopted and used by applicant as applied to said seat covers it was always used in connection with said fictitious name under which he had theretofore and since has adopted, and none of such purchasers could possibly under the circumstances be confused or mistaken as to the source of such product when in October, 1933, applicant adopted and first used the name "Safe Way" as aforesaid; that, during all this time during which appli-

## Plaintiff's Exhibit No. 2—(Continued)

cant built up a business and good will throughout the United States in the distribution of seat covers under said trademark "Safe Way," opposer well knew of this distribution and of the extensive good will of applicant in the sale of said seat covers under said trade name, and at no time, notwithstanding such knowledge and notice, did opposer or any of its predecessors question in any manner applicant's title to such trade-mark "Safe Way" as so applied, nor was there any competition between opposer and this applicant in any way relating to said product of said name, opposer during all such time, and at the present time, not selling seat covers nor using the name "Safeway" in connection therewith; that opposer has been guilty of laches in not giving notice to applicant at any time during the aforesaid long continued use by applicant of such trade-mark of its asserted rights to an exclusive use of said name and under equitable principles is estopped now, after such long delay during which applicant's said interstate business and good will were built up, from questioning by this opposition applicant's right and title to said name "Safe Way" as applied to seat covers, and in this proceeding attempting to in effect avail itself of and appropriate applicant's business and good will in the sale of seat covers under the trademark "Safe Way."



## Plaintiff's Exhibit No. 2—(Continued)

## Second Affirmative Defense:

For a further defense to said notice of opposition, applicant alleges:

## II

That applicant has adopted and used extensively in interstate commerce the name "Safe Way" as applied to toilet seat covers since October 28, 1933, and applicant alleges on information and belief that opposer has never applied such name to any article of like descriptive properties; that applicant has built up a large interstate commerce in the use of said name as so applied since the time of said first adoption and use and long before opposer had extensively used the name "Safeway" in connection with its said grocery stores, and long before the date of the earliest "specimens" referred to in the communication dated May 20, 1944, of the Examiner of Interferences in this proceeding, and to which dates opposer is now limited by said last-mentioned Office Action; that the toilet seat covers to which applicant has so applied said mark are not suitable for sale in grocery stores, and are not and have not been sold in stores of such character, and customers at such stores do not associate opposer's said name with any article whatsoever of like descriptive properties (of which there are none) sold in opposer's said stores; that on the contrary said toilet seat covers as aforesaid are only sold to large public companies or organizations which offer toilet facilities for customers, distributing said seat covers



## Plaintiff's Exhibit No. 2—(Continued)

free of charge as part of said service, and that none of the applicant's customers or potential customers have been or could be confused as to the source of manufacture of applicant's product as all are and have been continuously during the time of applicant's said use of said name sufficiently advised, and have always recognized applicant as the distributor of said products, and have never recognized opposer as a distributor of toilet seat covers under any name; alleges on information and belief that opposer does not and has not sold any article in its said grocery stores of the same descriptive properties as applicant's toilet seat covers, and that extension of opposer's said business in operating grocery stores to include the sale of toilet seat covers is not and would not be a natural extension of said opposer's business.

## Third Affirmative Defense:

For a further defense to said notice of opposition, applicant alleges:

## III

"Safeway" is an expression of such commonplace significance in the language that its use in association with products unrelated to opposer's business would not be likely to, and does not, suggest such opposer in the mind of the public in connection particularly with applicant's toilet seat covers. Opposer does not deal in toilet seat covers, nor would purchasers expect to find merchandise

## Plaintiff's Exhibit No. 2—(Continued)

of that character in a chain grocery store; and applicant alleges that it thus appears improbable that applicant's use of the mark he seeks to register would confuse the public to opposer's injury—all as decided by the Commissioner of Patents in *Safeway Stores, Inc. vs. Southern Independent Oil and Refining Company, Inc.*, January 8, 1941, reported 48 U. S. P. Q. 220, of which we request the Examiner to take judicial notice.

## Fourth Affirmative Defense:

For a further defense to said notice of opposition, applicant alleges:

## IV

That the trade-mark "Safeway" was and has been applied to many kinds of articles of merchandise both of a character which might be sold in chain grocery stores, and of a character (like applicant's said seat covers) which would not be found in said grocery stores such as those of opposer, from a time long prior to the first use by opposer in its alleged corporate name, and said name has a common place significance in the language; and the adoption and use of said name by opposer is inequitable as attempting to trade upon the business and good will of other prior trade-mark registrants of the name "Safeway," and such use would tend to confuse the public as to the source of manufacture of merchandise of said prior registrations.

## Plaintiff's Exhibit No. 2—(Continued)

## Fifth Affirmative Defense:

For a further defense to said notice of opposition, applicant alleges:

## V

That the word "Safeway" is a predominating word in the name of a number of corporations throughout the United States, and has been used many times in so many different ways that it is no more calculated to denote one corporation than any other corporation.

## Sixth Affirmative Defense:

For further defenses in law under Rule of Civil Procedure 12 (b) to said notice of opposition, applicant alleges:

## VI

(a) That the notice of opposition does not state a cause of action or any legally sufficient ground for opposition, in that the grounds stated for said opposition are not within the purview of the Act cited in paragraph 6. of said notice of opposition, i.e., §5 (b) of the Act of 1905, Title 15, §85, U. S. Code, particularly in that the word "Safeway" is no more the name of opposer than the word "Stores" or "Inc.", and that the statute cited does not include any reference to part of a name of a corporation, obviously on the contrary referring to the name of an opposer as a whole; and that it thus appears from the averments of said notice of

## Plaintiff's Exhibit No. 2—(Continued)

opposition that the word "Safeway" was not opposer's name, but only one word in opposer's name, and applicant's registration of said name is therefore not prohibited by the terms of said statute;

(b) That it is not alleged in said notice of opposition that said name "Safeway" (said to have been used by opposer since 1926) became widely or otherwise known as a name for opposer's stores in 1927 or at any other time prior to the date of adoption and used by applicant, i.e., October 28, 1933, as hereinbefore set forth; on the contrary, the specimens forming parts of or exhibits to said notice of opposition show as dates of said widespread advertisements of opposer's use of said name to have been long after applicant's first adoption and use.

Wherefore, applicant prays that said opposition be dismissed, and that the registration of the trademark "Safe Way" as described in said application be granted to applicant.

/s/ WARREN W. DUNNELL,  
Applicant.

/s/ JOSEPH F. WESTALL,  
Attorney for Applicant.

JOSEPH F. WESTALL  
(Registration No. 3894)  
702 Wm. Fox Building  
608 South Hill Street  
Los Angeles 14, California.

## Plaintiff's Exhibit No. 2—(Continued)

## Verification

State of California,

County of Los Angeles—ss:

Warren W. Dunnell, being first duly sworn, deposes and says that he is applicant in the foregoing Answer to Notice of Opposition; that he had read said answer and signed the same, and knows the contents thereof; and that the same is true of his own knowledge, except as to the matters therein stated to be alleged upon information and belief, and as to those matters he believes it to be true.

/s/ WARREN W. DUNNELL.

Subscribed and sworn to before me this 31st day of May, 1944.

[Seal] /s/ AGNES E. HIGGINS,  
Notary Public in and for County of Los Angeles  
and State of California.

My Commission Expires July 13, 1947.

## Certificate Of Service

I, Joseph F. Westall, attorney for Warren W. Dunnell, hereby certify that on this 2nd day of June, 1944, I served a copy of the foregoing "Answer to Notice of Opposition" upon Mida, Richards and Murray, 537 South Dearborn Street, Chicago 5, Illinois, attorney of record for Safeway



## Plaintiff's Exhibit No. 2—(Continued)

Stores, Incorporated, by regular mail, postage prepaid.

/s/ JOSEPH F. WESTALL.

JOSEPH F. WESTALL

(Registration No. 3894)

702 Wm. Fox Building

608 South Hill Street

Los Angeles 14, California.

[Letterhead]: Department of Commerce, United States Patent Office, Richmond Va., mailed June 6, 1944. Opposition No. 23281. Safeway Etores, Incorporated, vs. Dunnell.

Paper No. 8. All communications respecting this application should give the serial number, date of filing, title of invention, and name of the applicant.

Records and briefs at final hearing must be filed as directed in rules 162 and 163.

Briefs for junior parties to be filed 25 days before final hearing. Brief for senior party to be filed 10 days before final hearing.

In contested trade-mark cases, only a single ribbon copy of typewritten briefs need be filed; and where a party seeks to have printing of his testimony dispensed with, in addition to the original transcript thereof a single typewritten copy for office use and one for each adverse party will suffice;



## Plaintiff's Exhibit No. 2—(Continued)

but the requirements of rules 162 and 163 must be otherwise observed.

The answer of the applicant having been filed, times for taking testimony and for final hearing are set as given below. The testimony should be taken, forwarded and printed in accordance with the published Rules of Practice of the Office governing patent interference proceedings.

Testimony in chief of Safeway Stores, Incorporated to close August 5, 1944.

Testimony of Dunnell to close September 5, 1944.

Rebuttal testimony of Safeway Stores, Incorporated to close September 20, 1944.

Final hearing December 20, 1944, at 10 a.m.

/s/ A. D. BAILEY,

Examiner of Interferences,

Room 212.

Hearing: January 23, 1946. In the United States Patent Office. Safeway Stores, Incorporated, vs. Warren W. Dunnell.

Appeal from Examiner of Interferences

Opposition No. 23,281 to registration of trade-mark of Warren W. Dunnell for toilet seat covers, application filed May 19, 1942, Serial No. 453,-099, published March 21, 1944.

Mida, Richards & Murray for Safeway Stores, Incorporated.

Joseph F. Westall and Joseph W. Milburn and John R. Milburn for Warren W. Dunnell.

## Plaintiff's Exhibit No. 2—(Continued)

This is an appeal from the decision of the examiner of interferences sustaining the opposition of Safeway Stores, Incorporated, to the application of Warren W. Dunnell for registration of a trademark for "toilet seat covers."

Applicant's mark is essentially the notation "Safe Way." The opposition was sustained on the ground that the mark constitutes a substantial appropriation of opposer's corporate name.

In *Safeway Stores, Incorporated, vs. Safeway Opticians, Inc.*, 584 O. G. 498, 68 U.S.P.Q. 332, decided since the appeal in the instant case was argued, I found that:

"While 'Safeway' is not opposer's complete corporate name, it has nevertheless become so identified with opposer that it designates opposer to the mind of the public in the same manner, albeit to be a lesser degree, as do the letters 'RCA' designate Radio Corporation of America."

Accordingly, on authority of *Radio Corporation of America vs. Rayon Corporation of America*, 31 C.C.P.A. 808, 139 Fed. (2d) 833, I held the word nonregistrable. And if "Safeway" is nonregistrable, so of course is "Safe Way." *White Cap Co. vs. Allied Stores Corporation*, 503 O. G. 870, 41 U.S.P.Q. 554.

As stated in the *Safeway Opticians* case, and as shown by the evidence here:

## Plaintiff's Exhibit No. 2—(Continued)

“Opposer operates a chain of more than two thousand grocery stores, which are scattered through half the States of the Union. In them it sells not only groceries, but all such more or less related items as the public demands. It has been in business for many years, and has come to be widely known merely as ‘Safeway.’ In fact, it has almost invariably used that word alone as its name. And while it may not be as universally recognized as is Radio Corporation of America, its customers constitute a very considerable portion of the American public.”

In that case, as in this, opposer was not dealing in the particular merchandise for which registration was sought; but that fact was held to be immaterial. Moreover, as pointed out by the examiner of interferences, opposer does sell such paper products as toilet tissue and paper towels, which are clearly of the same descriptive properties as applicant's paper toilet seat covers.

Applicant has been using his mark since the fall of 1933, and his sales have steadily increased. He thus argues that because opposer must have had knowledge of such use, it is estopped by laches to maintain this proceeding. Referring to the examiner's observation that “opposer could not file an opposition to registration of a trade-mark until application for such registration had first been made,” applicant says:

“Certainly opposer could not file an opposi-

## Plaintiff's Exhibit No. 2—(Continued)

tion until applicant requested registration, but during the many years during which applicant had maintained an impregnable title to the name 'Safe Way' as applied to toilet seat covers, if opposer had been injured in any way, opposer should have instituted an unfair competition suit."

But surely its failure to sue did not deprive opposer of the statutory right to oppose the registration of its name as a trade-mark. Presumably, opposer did not object to applicant's use of the mark; but the proposed registration would be prima facie evidence of applicant's exclusive ownership of the term "Safe Way," not only as applied to toilet seat covers, but as applied to all other goods of the same class. It seems to me that if there has been laches, applicant is the guilty party. If he intended to register his trade-mark he should have done so, as he might have done, before the word "Safeway," through extensive advertising, had come to be regarded by the public as merely opposer's corporate name.

The decision of the examiner of interferences is affirmed.

/s/ LESLIE PRAGER,

First Assistant Commissioner.

April 24, 1946.

No. 26230-G—Pltfs. Exhibit No. 2

[Endorsed]: Filed Mar. 12, 1947, C. W. Calbreath, Clerk, by L. R. Elkington, Deputy Clerk.

## PLAINTIFF'S EXHIBIT No. 3

390

Department of Commerce  
United States Patent Office

To all persons to whom these presents shall come,  
Greeting:

This Is to Certify that the annexed is a true copy from the records of this office of Papers 11 and 16, in the matter of Opposition Number 23,281, Safeway Stores, Incorporated, vs. Warren W. Dunnell, Trade-Mark for Toilet Seat Covers.

In Testimony Whereof I have hereunto set my hand and caused the seal of the Patent Office to be affixed at the City of Washington, this sixth day of September, in the year of our Lord one thousand nine hundred and forty-six and of the Independence of the United States of America the one hundred and seventy-first.

[Seal]

/s/ CASPER W. OOMS,  
Commissioner of Patents.

Attest:

T. A. COULTER,  
Acting Chief of Division.

Plaintiff's Exhibit No. 3—(Continued)

In the United States Patent Office  
Before the Examiner of Interferences

OPPOSITION No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,  
vs.  
WARREN W. DUNNELL,  
Applicant.

Deposition of Milton L. Selby

Taken before Dorothy Dillard, a Notary Public  
in and for the County of Alameda, State of Cali-  
fornia, on Tuesday, August 8, 1944.

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INDEX TO EXHIBITS

Opposer's Exhibits:	Page
1. Copy of certificate of incorporation of Safeway Stores, Incorporated, a Maryland corporation, as amended to date .....	4
2. Certified copy of Articles of Incorporation of Safe- way Stores, Inc., of Nevada.....	14
3. Certified copy of Articles of Incorporation of Safe- way Stores, Incorporated .....	15
4. Certificate of the Secretary of State Tax Commission of the State of Maryland certifying to the fact that Safeway Stores, Incorporated, is incorporated under the laws of the State of Maryland.....	16
5. Photograph of Safeway Store No. 371, 305 South Logan, Denver, Colorado .....	16
6. Photograph of Safeway Store No. 846 at 15 Ocean Avenue, San Francisco, California.....	16



## Plaintiff's Exhibit No. 3—(Continued)

Opposer's Exhibits (Continued):	Page
7. Photograph of Safeway Store located at 4922 Swope Parkway, Kansas City, Missouri.....	16
8. Photograph of Safeway Store No. 55 at 115 No. First Street, Tucumcari, New Mexico .....	16
9. Reproduction of Brown Derby Beer advertisement, ad No. 4056, published in various Arizona newspapers in 1943 .....	18
10. Reproduction of advertisement regarding new Safeway buying set-up for farm products published in various farm papers in 1943, ad No. 4203A.....	18
11. Reproduction of general form and set-up of a Safeway advertisement to be published in various newspapers during week beginning February 28, 1944.....	18
12. Tear sheet from The Enid, Oklahoma Morning News, dated June 2, 1944.....	19
13. Tear sheet from the Oklahoma City Times, dated June 2, 1944 .....	19
14. Tear sheet from the El Dorado, Kansas, Times, dated June 1, 1944.....	19
15. Tear sheet from the Tacoma, Washington, News Tribune, dated June 1, 1944.....	19
16. Tear sheet from the Seattle, Washington, Times, dated June 1, 1944 .....	19
17. Tear sheet from the Lewiston, Idaho, Morning Tribune, dated June 2, 1944.....	19
18. Tear sheet from the Grand Island, Nebraska, Daily Independent, dated May 30, 1944.....	19
19. Tear sheet from the Evening World Herald, Omaha, Nebraska, dated May 31, 1944.....	19
20. Tear sheet from the Evening Star, Washington, D. C., dated June 1, 1944.....	19
21. Tear sheet from the Bronx Home News, New York City, dated June 1, 1944.....	19
22. Tear sheet from The Herald Statesman, Yonkers, New York, dated June 1, 1944.....	19
23. Tear sheet from the Bergen Evening Record, New Jersey, dated June 1, 1944.....	19

## Plaintiff's Exhibit No. 3—(Continued)

Opposer's Exhibits (Continued) :	Page
24. Tear sheet from the Arizona Republic, Phoenix, Arizona, dated May 31, 1944.....	19
25. Tear sheet from the Post Register, Idaho Falls, Idaho, dated June 2, 1944.....	19
26. Tear sheet from the Salt Lake Tribune, Salt Lake City, Utah, dated June 3, 1944.....	19
27. Tear sheet from the Billings, Montana, Gazette, dated May 31, 1944.....	19
28. Tear sheet from the Great Falls, Montana, Leader, dated June 1, 1944 .....	19
29. Tear sheet from the Daily Sentinel, Grand Junction, Colorado, dated June 2, 1944.....	19
30. Tear sheet from the Wyoming Leader, Cheyenne, Wyoming, dated June 3, 1944.....	19
31. Tear sheet from the Tribune-Sun, San Diego, California, dated June 1, 1944.....	19
32. Tear sheet from the Oregon Journal, Portland, Oregon, dated May 31, 1944.....	19
33. Tear sheet from The Medford, Oregon, Mail Tribune, dated June 1, 1944.....	19
34. Tear sheet from The Kansas City Missouri Times, dated June 2, 1944.....	19
35. Tear sheet from The Topeka Kansas Daily Capital, dated June 2, 1944.....	20
36. Tear sheet from the Wichita Beacon, dated June 1, 1944 .....	20
37. Tear sheet from the Humboldt Times, Eureka, California, dated June 2, 1944.....	20
38. Tear sheet from the San Francisco, California, Examiner, dated June 1, 1944.....	20
39. Tear sheet from the Fresno, California, Bee, dated May 30, 1944.....	20
40. Tear sheet from the Los Angeles Herald Express, dated May 31, 1944.....	20
41. Tear sheet from the Ventura, California, County Star-Free Press, dated May 31, 1944.....	20

Plaintiff's Exhibit No. 3—(Continued)

In the United States Patent Office  
Before the Examiner of Interferences

Opposition No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,  
vs.

WARREN W. DUNNELL,  
Applicant.

#### DEPOSITION OF MILTON L. SELBY

Deposition of witness produced and examined on behalf of Safeway Stores, Incorporated, Opposer, pursuant to the annexed notice, at the offices of Safeway Stores, Incorporated, in Room 403 at 4th and Jackson Streets, in the City of Oakland, Alameda County, California, on Tuesday, August 8, 1944, between the hours of 10:00 a.m. in the forenoon and 4:30 p.m. in the afternoon before Dorothy Dillard, a notary public in and for the County of Alameda, State of California.

Present:

Drummond Wilde, Esq., in behalf of opposer Safeway Stores, Incorporated;

Joseph F. Westall, Esq., in behalf of applicant Warren W. Dunnell.

Mr. Westall: I understand that it is stipulated that each of the parties to this proceeding will fur-

## Plaintiff's Exhibit No. 3—(Continued)

nish to the other without cost a copy of its or his testimony taken at this proceeding, and will, before filing the original of such deposition accord to the opposite party an opportunity to secure photostatic copies of any exhibits which may have been offered in evidence, such photostats, however, being at the cost of the party to whom they are furnished.

Mr. Wilde: I accept that stipulation.

## MILTON L. SELBY,

being first duly sworn, doth depose and say, in answer to interrogatories propounded to him by Drummond Wilde, Esq., Counsel for Opposer, as follows, to-wit:

Question 1. What is your name, address and occupation?

Answer: My name is Milton L. Selby. My address is 107 Camino Don Miguel, Orinda, California. My occupation is that of an attorney in the employ of Safeway. By that I mean Safeway Stores, Incorporated, a Maryland corporation.

Q. 2. How long have you been employed by Safeway Stores, Incorporated?

A. Since January 1, 1943.

Q. 3. By whom were you employed before that date?

A. Safeway Stores, Inc., a former California subsidiary of Safeway Stores, Incorporated, a Maryland corporation.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Milton L. Selby.)

Q. 4. How long were you employed by Safeway Stores, Inc., a California corporation?

A. From about July 5, 1926, to December 31, 1942, which is the date on which Safeway Stores, Inc., a California corporation, was liquidated and all of its assets, business and good will were transferred and distributed to its then parent corporation, Safeway Stores, Incorporated, a Maryland corporation, in complete liquidation of the former.

Q. 5. What are your general duties in your present employment?

A. I am the head of the Legal Department of Safeway Stores, Incorporated, and in such capacity I am in charge of the handling of all legal matters pertaining to the business and affairs of that company and its subsidiaries. In addition, I am the Secretary and a Director of the company and perform the duties incident to such offices.

Q. 6. What were your general duties in your employment with Safeway Stores, Inc., the former California subsidiary?

A. Substantially the same as they are now, except that from 1926 to 1935 I was an attorney in the employ of the company but was not the head of its legal department. For a number of years prior to 1943 I was also the Secretary and a Director of this former California subsidiary and performed the duties incident to such offices.

Q. 7. What is the business of Safeway Stores, Incorporated?



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Milton L. Selby.)

A. The operation of a retail chain grocery system consisting of retail grocery stores and markets, warehouses, offices, manufacturing plants and other facilities. In addition, the company supervises and finances the operations of various subsidiaries, some of which do business in the United States and others of which do business in Canada.

Q. 8. Under the laws of what state is Safeway Stores, Incorporated, organized?

Mr. Westall: Objected to as not the best evidence, and further as not identifying what Safeway Stores or what corporations are referred to.

A. Maryland.

Mr. Wilde: Q. 9. When was it incorporated?

Mr. Westall: Objected to as not the best evidence of incorporation.

A. March 24, 1926.

Mr. Wilde: Q. 10. I show you this document marked Exhibit No. 1 and ask you if you can identify it and, if so, state briefly what it is.

Mr. Westall: Objected to on the ground that this is not the best evidence; the document on its face speaking for itself as to its identity, and, furthermore, as to the document itself, that it appears to be a copy, not the best evidence and not properly, or, in fact, in any manner, certified by the proper officer as a true, complete and correct copy.

A. Yes, I can identify it. The document is a true and complete copy of the certificate of incor-



Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

poration of Safeway Stores, Incorporated, a Maryland corporation, as amended to date.

Mr. Wilde: Q. 11.

Mr. Westall: Move to strike out the answer so far as it asserts the fact of corporate existence and the grounds heretofore stated in the previous objection.

Mr. Wilde: I offer this document in evidence as Opposer's Exhibit No. 1.

Mr. Westall: Objected to on the grounds heretofore stated, namely, that the document just offered is not the best evidence of anything it may contain.

Mr. Wilde: Q. 11. What records of Safeway Stores, Incorporated, are kept under your supervision?

A. Records and documents of a corporate nature such as minutes of Directors and Stockholders Meetings of the company and its subsidiaries, records pertaining to claims and law suits involving the company and its subsidiaries, various contracts and agreements to which the company or its subsidiaries is a party, various other records, correspondence and documents pertaining to the business and affairs of the company and its subsidiaries.

Q. 12. What products are sold by Safeway Stores, Incorporated?

A. Various items of food, food products, meats and non-food items which are handled generally by grocery stores.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Milton L. Selby.)

Q. 13. When was the business of Safeway Stores, Incorporated, established or founded?

Mr. Westall: Is counsel referring to Maryland corporation?

Mr. Wilde: Safeway Stores, Incorporated, a Maryland corporation.

Mr. Westall: I understand from your statement a moment ago that the California corporation is and has been referred to as Safeway Stores, Inc., the abbreviation for "incorporated," while the Maryland corporation has been distinguished by the name Safeway Stores, Incorporated, that is correct, is it not, Mr. Wilde?

Mr. Wilde: Yes.

A. The two main roots of the business were founded on a small scale in 1914 and 1915 and through expansion and as a result of acquisitions, consolidations or mergers most of which took place before 1932, has grown to its present size. From 1926 until December 31, 1942, most of the operations of the Safeway organization in this country, were owned and operated directly by wholly owned subsidiaries. At the end of 1942 all retail subsidiaries in this country and all but one manufacturing subsidiary were liquidated and their assets, business and goodwill were transferred and distributed to the Maryland company. Since then all retail operations of the organization in this country have been owned and operated directly by the Maryland

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

company, which, since its organization in 1926, has been the parent company of the affiliated group.

Mr. Westall: I move to strike out the part of the answer referring to the years 1914 and 1915 and what happened at that time as not being put in issue or referred to in any way in the Notice of Opposition and, therefore, not relevant or pertinent to the present proceeding, objecting to all such matter of such answer and repeating the motion to strike up to the year 1926.

Mr. Wilde: Q. 14. During what period of time has the designation or name "Safeway" been used in connection with the business of the Safeway organization?

Mr. Westall: Objected to on the ground that the question is irrelevant, immaterial, the word, "Safeway" alone, not being put in issue as a trade name or name of a corporation alone, the opposition being founded upon the use by opposer of the name "Safeway Stores, Incorporated," and not the word "Safeway" alone.

A. At all times since 1926, which was after the date on which the name of the former California subsidiary, Safeway Stores, Inc., was changed from Sam Seelig Company to Safeway Stores, Incorporated; the name of this former subsidiary was later changed to the abbreviated form, Safeway Stores, Inc.

Q. 15. In what states does Safeway Stores, Incorporated, a Maryland corporation, operate?

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Milton L. Selby.)

A. It operates retail grocery stores and markets under the name "Safeway" and other facilities in California, Oregon, Washington, Idaho, Montana, Nevada, Utah, Arizona, New Mexico, Colorado, Wyoming, South Dakota, Nebraska, Kansas, Missouri, Iowa, Arkansas, Oklahoma, Texas, New York, New Jersey, Maryland, Virginia, and the District of Columbia. In most of the states so named it also operates other facilities and conducts other activities. In addition, it conducts seasonal or year-around buying operations in many of said states as well as in Wisconsin, Illinois, Georgia, Mississippi, Tennessee, North Carolina, South Carolina, Louisiana, Florida, West Virginia, Pennsylvania and Maine. The company is qualified to do business in all of the states so named and the District of Columbia.

Mr. Westall: It is moved to strike out the answer in so far as it refers to other states than those mentioned in paragraph 1. of the Notice of Opposition and as to such states is irrelevant and immaterial as not within the issues tendered by the Notice of Opposition. It is also moved to strike out the last sentence of the answer as to qualifications to do business as not the best evidence of such qualification, no foundation having been laid for secondary evidence, and also as to said last sentence, referring to and including the names of states not set forth in the Notice of Opposition.

Mr. Wilde Q. 16. How many stores did Safe-

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Milton L. Selby.)

way Stores, Incorporated, own and operate at the end of 1943?

A. Two thousand three hundred thirty-one stores as of December 31, 1943, exclusive of one hundred forty-one stores in Canada, which are owned and operated by a Canadian subsidiary.

Mr. Westall: The question is objected to and it is moved to strike out the answer in that the question includes, apparently, all alleged Safeway Stores in states not put in issue or mentioned in the Notice of Opposition, and it is moved to strike out the answer as immaterial and irrelevant so far as it includes in the number of stores any of the stores in the states not listed in paragraph 1. of the Notice of Opposition. The same objection is made to the reference to the number of stores in Canada on the ground that Canadian owned stores are of no relevance or pertinence whatsoever in this proceeding, are not mentioned in the Notice of Opposition, and if intended to be included in the question are totally irrelevant and immaterial.

Mr. Wilde Q. 17. Has there been any material change since December 31, 1943, in the number of stores so owned and operated by Safeway Stores, Incorporated?

A. No. As of June 30, 1944, Safeway operated about two thousand three hundred and twenty-one stores in this country.

Mr. Westall: I move to strike out the number of stores alleged to be so operated in this country



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

insofar as that number includes states not mentioned in paragraph 1. of the Notice of Opposition.

Mr. Wilde Q. 18. About how many stores were operated by Safeway in the states and the District of Columbia previously named by you?

Mr. Westall: The same objection, as including states not put in issue in the Notice of Opposition. Objection is also made to the use by counsel of the word, "Safeway," implying that that was the full name of Safeway Stores, Incorporated, which is contrary to the Notice of Opposition.

A. About seven hundred and eight stores in California, about 106 stores in Oregon, about 184 stores in Washington, about 32 stores in Idaho, about 45 stores in Montana, about 11 stores in Nevada, about 46 stores in Utah, about 37 stores in Arizona, about 28 stores in New Mexico, about 108 stores in Colorado, about 22 stores in Wyoming, about 2 stores in South Dakota, about 76 stores in Nebraska, about 91 stores in Kansas, about 75 stores in Iowa, about 32 stores in Arkansas, about 100 stores in Oklahoma, about 152 stores in Texas, about 153 stores in New York, about 80 stores in New Jersey, about 28 stores in Maryland, about 75 stores in Virginia, about 127 stores in the District of Columbia.

Mr. Westall: I move to strike out the answer in so far as it refers to any states not set forth in Paragraph 1. of the Notice of Opposition and as entirely irrelevant and immaterial.



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Milton L. Selby.)

Mr. Wilde Q. 19. Under what name are these stores operated?

A. All of these stores are operated under the name "Safeway."

Q. 20. What were the total sales of Safeway Stores, Incorporated, a Maryland corporation, for the calendar year 1943?

A. The total sales of this company in 1943 were \$544,555,337.95.

Q. 21. In what manner does the company use the name "Safeway" in the operation of its retail stores?

Mr. Westall: Objected to on the ground that the assumption that the stores are called "Safeway" is contrary to the Notice of Opposition in which it is alleged that such stores are called "Safeway Stores" or "Safeway Stores, Inc." and not merely "Safeway."

A. The name "Safeway" alone is used very prominently on large store signs which are attached to or painted on the outsides of the stores and on signs which are maintained at parking lots or areas which are located next to many of the stores and which are maintained by the company for the convenience of customers trading at such stores. It is also used in extensive newspaper advertising which appears regularly in newspapers which are published and circulated in areas in which the company's stores are located. The name "Safeway" alone is used very prominently to identify the stores

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

at which the merchandise so advertised is offered for sale. Other media of advertising such as radio broadcasts and billboards are used frequently by the company to advertise its stores or some of the products sold by its stores and the name "Safeway" alone is used in such advertising to identify its stores. The name "Safeway" alone is also used by the company extensively by having it printed or placed on gummed tape, gummed labels, store posters, bags, cash register receipts and similar items which are used in connection with the operation of its stores.

Mr. Westall: I move to strike out all parts of the immediately preceding answer as irrelevant and immaterial, particularly on the ground that in the office action in this opposition, dated May 20, 1944, which was in response to a letter filed May 18, 1944, by applicant, it was ruled by the Examiner of Interference that the Opposer will be hereinafter restricted in its proofs to the specimens or evidence filed with the Opposition, namely, Ad No. 4967, farm papers, 1939; Ad No. 9171, California Grange News, November 20, 1940; Ad No. 799, newspapers, fall 1941; Ad No. 9174, newspapers 1941; and Ad No. 2617A, farm papers, 1942, and that consequently all parts of the answer suggesting further proof of other advertisements or testimony of the witness that there were such other advertisements or specimens or labels, signs, is contrary to the restriction of the Examiner of Interferences above referred to;

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

that this motion being also made on the ground that the witness' statement of such advertisements is not the best evidence.

Mr. Wilde Q. 22. Has the name "Safeway" alone been used in similar ways in the past by the company and its former subsidiaries to identify its business and stores?

Mr. Westall: Objected to on the ground amplified in the immediately preceding objection, i.e., that the question contemplates going out of and beyond the restriction as to proof in the office action of May 20, 1944, in this proceeding.

A. Yes, for a number of years.

Mr. Wilde Q. 23. What sums of money have been expended by the company and its former subsidiaries for such purposes?

Mr. Westall: Objected to on the ground that the question refers to and includes money expended by the company and alleged subsidiaries for advertising beyond the advertising to which the proceeding has been restricted in said office action of May 20, 1944.

A. I do not know the exact amount so expended up to the present time, but by reason of my connection with the company and its former subsidiaries for a number of years I know that the amounts of money so expended have been substantial and would total many millions of dollars. In 1943 the total amount expended by the company for advertising of all kinds amounted to \$3,631,561.35. A very large part of the amount so expended in 1943 was for ad-

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

vertising in which the name "Safeway" alone was used to identify the stores operated by the company.

Mr. Westall: Move to strike out the part of the answer referring to the use of "Safeway" alone as contrary to the issues raised in the Notice of Opposition, and, hence, irrelevant and immaterial.

Mr. Wilde Q. 24. In what manner and to what extent is the name "Safeway" alone used by the company to identify the corporation and its business?

Mr. Westall: Insofar as the question relates to any of the advertising matter other than filed with the Notice of Opposition and to which Opposer is limited by the office action of May 20, 1944, the question is objected to, as irrelevant and immaterial, and a violation of said restriction.

A. The name "Safeway" alone is used very prominently on large store signs which are attached to or painted on the outsides of the stores and on signs which are maintained at parking lots or areas which are located next to many of the stores and which are maintained by the company for the convenience of customers trading at such stores. The name "Safeway" alone is used very prominently in extensive newspaper advertising which appears regularly in newspapers which are published and circulated in areas in which the company's stores are located to identify the stores at which the merchandise so advertised is offered for sale. Other media of advertising such as radio broadcasts and

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

billboards are used frequently by the company to advertise its stores or some of the products sold by its stores and the name "Safeway" alone is used in such advertising to identify such stores. The name "Safeway" alone is also used by the company extensively through having it printed or placed on gummed tape, gummed labels, store posters, bags, cash register receipts and similar items which are used in connection with the operation of its stores.

Mr. Westall: I move to strike out the testimony relating to methods of advertising the name "Safeway" alone and also all parts of the answer referring to any advertising other than the specimens of advertising to which Opposer is limited in said office action of May 20, 1944.

Mr. Wilde Q. 25. By what name is the company known generally to the purchasing public?

Mr. Westall: Objected to on the ground that the witness has not been qualified to testify concerning by what name the company is known generally to the purchasing public and such answer, obviously, would only amount to a surmise by the witness.

A. The company and its business is known generally to the purchasing public by the name "Safeway" by reason of the long continued and extensive use of the name "Safeway" alone.

Mr. Wilde Q. 26. How do you know that the company and its business is generally known to the purchasing public by the name "Safeway?"

Mr. Westall: Objected to as incompetent, irrele-



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

vant and immaterial, and also on the ground heretofore amplified in objection to other similar questions.

A. I know this by reason of my numerous business and social associations both in California and in other parts of the country over a period of years with many people who are not employed by or connected with the company or any of its subsidiaries. In referring to the company in the course of my conversations with such people, many of whom were not known to me previously, I have referred to the company by the name "Safeway" alone, and such people have known immediately that I was referring to the company and its business. In addition, as a result of the long-continued and extensive use of the name "Safeway" alone on store signs, in advertising, and by other means to identify the company and its business, it is my opinion and belief that there would be very few, if any, people in the locality in which the company does business who would not know that the name "Safeway" alone means or refers to the company and its business. The people buying or trading in such localities know that the name "Safeway" alone identifies the company its its business as they see the name on store signs and in newspaper advertisements. Those who trade with Safeway would also see the name as used in connection with the sale of merchandise in the retail stores. The farmers, producers, manufacturers and other suppliers from whom Safeway pur-



Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

chases merchandise for distribution in its stores, and the many concerns with which Safeway does business in connection with the operation of its stores know that the word "Safeway" alone identifies the company and its business.

Mr. Westall: It is moved to strike out all references in the immediately preceding answer to store signs and advertising other than those to which Opposer has been limited by the office action of May 20, 1944, and also it is moved to strike out the statement of the opinion of the witness as obviously not qualified to say whether the public at large or any great proportion of them knew of the company otherwise than as "Safeway Stores, Inc.," or "Safeway Stores, Incorporated."

Mr. Wilde: Q. 27. I show you this document, marked Exhibit No. 2, and ask if you can identify it, and, if so, tell what it is.

A. This is a certified copy of the Articles of Incorporation of Safeway Stores, Inc., of Nevada, formerly a Nevada subsidiary of the Maryland company and now dissolved. The name of this former subsidiary was originally Skaggs-Safeway Stores, Incorporated, the name having been changed to Safeway Stores, Incorporated, in 1929, and later in 1941 to Safeway Stores, Inc., of Nevada. This former subsidiary began business in 1926 and prior to its dissolution on December 31, 1942, this former subsidiary owned and operated under the name "Safeway" alone a large number of stores now

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

owned and operated by the Maryland company, such stores being located in a number of the states previously named by me.

Mr. Westall: We move to strike out the statement regarding when the former subsidiary began business and also the statement of its operation under the name "Safeway" alone as irrelevant and immaterial, not within the issues raised in the Notice of Opposition and being advertising matter outside of the restriction of the office action of May 20, 1944.

Mr. Wilde: I offer exhibit No. 2 in evidence.

Mr. Wilde: Q. 28. I show you this document marked Exhibit 3 and ask if you can identify it, and, if so, state what it is.

A. This is a certified copy of the Articles of Incorporation of Safeway Stores, Inc., formerly a California subsidiary of the Maryland company and now dissolved. The name of this former subsidiary was originally Sam Seelig Company, the name having been changed to Safeway Stores, Incorporated, in 1925, and later, in 1934, to Safeway Stores, Inc. This former subsidiary began business in 1914 and, in 1926, after its name had been changed to Safeway Stores, Incorporated, it started to use the name "Safeway" alone on many of the stores owned and operated by it and continued the use of this name until December 31, 1942, when these stores and the assets, business and good will of said corporation, were transferred

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

and distributed in liquidation to the Maryland company. This former subsidiary operated in California and for several years in the Territory of Hawaii.

Mr. Westall: I move to strike out any reference to any date prior to 1926 as not within the issues of this Interference, the same objection being made to the use of the name "Safeway" alone as being irrelevant and immaterial and outside the scope of the ruling of the Examiner of Interference in office action of May 20, 1944.

Mr. Wilde: The Opposer offers Exhibit No. 3 in evidence.

Mr. Wilde: Q. 29. I show you this document marked Exhibit No. 4 and ask if you can identify it, and, if so, state what it is.

A. This is a certificate of the Secretary of the State Tax Commission of the State of Maryland, certifying to the fact that Safeway Stores, Incorporated, is incorporated under the laws of the State of Maryland; that it was in existence and in good standing on the date of the certificate.

Mr. Wilde: The Opposer offers Exhibit No. 4 in evidence.

Mr. Wilde: Q. 30. During what period of time has Safeway Stores, Incorporated, and its predecessors used the name "Safeway" to identify these stores and this business?

Mr. Westall: Objected to on the grounds immediately above amplified in objection to like.

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

questions, namely, as irrelevant and immaterial and contrary and outside of the issues raised in the Notice of Opposition.

A. The name "Safeway" was first placed in use by the former California subsidiary in 1926, and thereafter the use of the name was gradually extended to all stores operated by the company and its predecessors.

Mr. Westall: The same objections.

Mr. Wilde: Q. 31. I show you these photographs marked Exhibits Nos. 5 to No. 8, inclusive, and ask if you can identify them, and, if so, state briefly what they purport to be.

A. Exhibit No. 5 is a photograph of Safeway Store No. 371 at 305 South Logan, Denver, Colorado. Exhibit No. 6 is a photograph of Safeway Store No. 846 at 15 Ocean Avenue, San Francisco, California. Exhibit No. 7 is a photograph of a Safeway Store located at 4922 Swope Parkway, Kansas City, Missouri. Exhibit No. 8 is a photograph of Safeway Store No. 55 at 115 No. First Street, Tucumcari, New Mexico.

Mr. Wilde: The Opposer offers Exhibits Nos. 5 to 8, inclusive, in evidence.

Mr. Westall: Each of these exhibits is objected to on the ground that they are apparently specimens or labels, duplicates of which have not been attached to the Notice of Opposition and are, therefore, not within the restriction imposed by the Examiner of Interferences in office action of May

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

20, 1944, and are, therefore, irrelevant and immaterial, and, furthermore, are not within the issues raised by the pleadings in this case, and, furthermore, the witness has not been qualified to testify to the accuracy of the photographs, nor has he identified when they were made.

Mr. Wilde: Q. 32. Have you seen stores operated by Safeway in California and other parts of the country? A. I have.

Q. 33. Are the stores, the photographs of which have been identified and offered in evidence as Exhibits Nos. 5 to 8, inclusive, fairly representative of the type of stores operated by Safeway?

Mr. Westall: Objected to as incompetent, irrelevant and immaterial, and not identifying subject matter of the photographs, and also as not within the restriction of office action of May 20, 1944.

A. I have seen completed store buildings occupied by stores of Safeway Stores, Incorporated, in most of the states in which it operates stores, and the stores which I have seen are similar to the stores whose photographs are contained in Exhibits 5 to 8, inclusive. The stores which I have seen have carried the sign "Safeway" on the store and in many cases on the parking lot adjacent to the store. In addition, it has been a part of my duties with Safeway to examine blueprints and drawings for new stores and blueprints showing the fixture layouts for these stores and the drawings



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

so examined have carried the name "Safeway" on the store.

Mr. Westall: The answer is objected to as not responsive to the question and also as irrelevant and immaterial, and, furthermore, not the best evidence regarding any blueprints or drawings or signs and as going beyond the restriction contained in the office action of May 20, 1944.

Mr. Wilde: I will stipulate that the objection and the ground for the same which you have made to the effect that the exhibits offered in evidence are not within the scope of the restriction of the office action of May 20, 1944, with respect to each and all of the exhibits numbered 9 to 41, inclusive, which I propose to have identified and offer in evidence. It being also stipulated that when said exhibits have been identified each of them will be regarded as having been offered in evidence by the Opposer, subject to the objection mentioned above.

Mr. Westall: The stipulation is accepted, it being assumed that counsel will briefly through the witness identify each of the exhibits so that the matter may appear of record and that thereafter it will be not necessary for me to repeat or amplify of record the objections referred to to each of said exhibits.

Mr. Wilde: This stipulation is acceptable to me.

Mr. Wilde: Q. 34. I show you these papers marked Exhibits Nos. 9 to 11, inclusive, and ask



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

you if you can identify them, and, if so, state briefly what they are.

A. Exhibit No. 9 is a reproduction of a Brown Derby Beer advertisement which was published in various Arizona newspapers in 1943, ad No. 4056. Brown Derby Beer is brewed and bottled by various breweries and is handled by Safeway alone. Exhibit No. 10 is a reproduction of an advertisement regarding a new Safeway buying set-up for farm products which was published in various farm papers in 1943. This bears the designation, "Ad No. 4203A." Exhibit No. 11 is a reproduction of the general form and set-up of a Safeway advertisement planned for publication in various newspapers during the week beginning Monday, February 28, 1944. The above three exhibits show the use of the name "Safeway" as a designation for the company.

Mr. Wilde: Q. 35. I show you this group of newspaper tear sheets marked Exhibits Nos. 12 to 41, inclusive, and ask you if you can identify them, and, if so, state briefly what they are.

A. These are tear sheets containing retail price advertising used by the company with the name "Safeway" as the sole designation for the company, which appeared in the following newspapers on the dates given: The Enid, Oklahoma, Morning News, June 2, 1944, Exhibit No. 12; The Oklahoma City Times, June 2, 1944, Exhibit No. 13; The El Dorado, Kansas, Times, June 1, 1944, Ex-

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

hibit No. 14; The Tacoma, Washington, News Tribune, June 1, 1944, Exhibit No. 15; The Seattle, Washington, Times, June 1, 1944, Exhibit No. 16; The Lewiston, Idaho, Morning Tribune, June 2, 1944, Exhibit No. 17; The Grand Island, Nebraska, Daily Independent, May 30, 1944, Exhibit No. 18; The Evening World Herald, Omaha, Nebraska, May 31, 1944, Exhibit No. 19; The Evening Star, Washington, D. C., June 1, 1944, Exhibit No. 20; The Bronx Home News, New York City, June 1, 1944, Exhibit No. 21; The Herald Statesman, Yonkers, New York, June 1, 1944; Exhibit No. 22; The Bergen Evening Record, New Jersey, June 1, 1944, Exhibit No. 23; The Arizona Republic, Phoenix, Arizona, May 31, 1944, Exhibit No. 24; The Post Register, Idaho Falls, Idaho, June 2, 1944, Exhibit No. 25; The Salt Lake Tribune, Salt Lake City, Utah, June 3, 1944, Exhibit No. 26; The Billings, Montana, Gazette, May 31, 1944, Exhibit No. 27; The Great Falls, Montana,, Leader, June 1, 1944, Exhibit No. 28; The Daily Sentinel, Grand Junction, Colorado, June 2, 1944, Exhibit No. 29; the Wyoming Leader, Cheyenne, Wyoming, June 3, 1944, Exhibit No. 30; The Tribune-Sun, San Diego, California, June 1, 1944, Exhibit No. 31; The Oregon Journal, Portland, Oregon, May 31, 1944, Exhibit No. 32; The Medford, Oregon, Mail Tribune, June 1, 1944, Exhibit No. 33; The Kansas City, Missouri, Times, June 2, 1944, Exhibit No. 34; The Topeka, Kansas, Daily Capital, June 2, 1944. Ex-

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

hibit No. 35; The Wichita, Kansas, Beacon, June 1, 1944, Exhibit No. 36; The Humboldt Times, Eureka, California, June 2, 1944, Exhibit No. 37; The San Francisco, California, Examiner, June 1, 1944, Exhibit No. 38; The Fresno, California, Bee, May 30, 1944, Exhibit No. 39; The Los Angeles Herald Express, May 31, 1944, Exhibit No. 40; The Ventura, California, County Star-Free Press, May 31, 1944, Exhibit No. 41.

Mr. Wilde: The Opposer offers exhibits Nos. 9 to 41, inclusive, in evidence.

Mr. Wilde: Q. 36. In what ways would Safeway be damaged or injured by the use and registration by Warren W. Dunnell of his pending application for the registration of the trademark "Safeway" for use on toilet seat covers?

A. Safeway handles and sells in its stores various paper products such as toilet tissue, paper towels and paper napkins, in addition to other numerous items of merchandise which are generally sold in retail grocery stores. The use of the name "Safeway" on toilet seat covers manufactured or distributed by the applicant in this matter or any concern other than Safeway would, in my opinion, cause members of the purchasing public in the territory in which Safeway operates to believe that such toilet seat covers are manufactured or distributed by Safeway or an affiliate when such is, in fact, not the case, and the applicant or such other concern would thereby be trading upon the good

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

will which has been created and built up by Safeway at a very substantial cost for the name "Safeway" alone as applied to its stores and business. The registration and the use of the name "Safeway" for toilet seat covers by the applicant in this matter or any concern other than Safeway would, in my opinion, encourage and foster the adoption and use of this name on other products and would thereby impair and further damage the good will created and built up by Safeway in connection with the word "Safeway" alone as applied to its stores and business. In addition, Safeway would be forced to expend additional sums of money and valuable time of members of its staff would be used to restrain such infringements as it is Safeway's policy to vigorously protect its legal and equitable rights to the exclusive use of the name "Safeway" as against those who see fit to trade or attempt to trade upon such good will by the adoption and use of the name "Safeway" or some substantially similar name or word as a trademark to identify merchandise.

Q. 37. Has Safeway or any of its predecessors ever given Warren W. Dunnell permission to use the name "Safeway" on toilet seat covers or any other item of merchandise?      A. No.

No. 38. Although toilet seat covers may not now be handled by Safeway, is it in your opinion possible or probable that this item of merchandise

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

may later be handled by Safeway and other retail grocery stores or other types of retail stores?

A. Yes. The tendency in the retail merchandising field has been to add new items to those usually handled and in the case of Safeway it is our policy to add new items in our general line which we are equipped to handle and for which there is an adequate demand to justify our stocking the same for sale. For example, many grocery stores are now handling beer, wine, liquor, household remedies, vitamin and mineral preparations and other items which were formerly not stocked by grocery stores.

No. 39. Was the purported use by Warren W. Dunnell of the name "Safeway" on toilet seat covers known to Safeway before notice of Mr. Dunnell's application in this matter to register this name came to Safeway's attention?

A. No, not to my knowledge, or according to any information which is in my possession.

Q. 40. If such use had been known to Safeway, is it likely that you would have been informed of it?

A. Yes. It is the policy and practice of Safeway to have such matters referred promptly to the legal department, of which I am the head.

Q. 41. When you referred to the dissolutions and liquidations of the retail subsidiaries at the end of 1942 will you please tell me whether or not these retail subsidiaries were going concerns at the time they transferred their assets, properties,



Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

business and good will to the Maryland company?

A. These subsidiaries were all going concerns, carrying on retail store operations and other activities under the name "Safeway" in the territories in which they operated.

Mr. Wilde: That is all the direct examination I have for the witness.

Cross-Examination

By Mr. Westfall:

XQ. 42. In your answer to question 13 you stated from 1926 until December 31, 1942, most of the operations of the Safeway organization in this country were owned and operated directly by wholly owned subsidiaries. By operations did you not mean stores?

A. I meant all of the operations carried on by the company.

XQ. 43. In other words, the buying and selling you mean were the things that were owned, or was it the stores that were owned?

A. Both were owned and operated by the subsidiaries. The Maryland corporation acted purely as a holding company during most of that period.

XQ. 44. By that you mean as a stockholding company, do you not?

A. Yes. The Maryland corporation owned all of the issued and outstanding capital stock of the subsidiaries which owned and operated the retail stores and other facilities and carried on the businesses therein.



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

XQ. 45. In the states which you have mentioned?

A. In the states which I have mentioned. The operations in the states of New York and New Jersey have at all times been carried on directly by the Maryland corporation.

XQ. 46. Do you know when the New York corporation was formed?

A. There has never been a New York corporation. Those operations have at all times been carried on directly by the Maryland corporation. The operations in New York and New Jersey commenced in August, 1941.

XQ. 47. And then it's correct to say that in all of the corporations in all the other states which you have mentioned the ownership of the Maryland corporation predicated on the ownership of stock in all these corporations, is that correct?

A. Yes, until such time as the assets, business and good will of these corporations were transferred to it.

XQ. 48. When was this transfer made?

A. The transfer was made on December 31, 1942, with the exception of the business in the State of Utah, which was transferred to the Maryland corporation in 1941. Operations in Oklahoma and Arkansas were transferred to the Maryland corporation shortly after the assets in Utah were acquired by it.

XQ. 49. In your answer to question 13 you say, "At the end of 1942 all retail subsidiaries in this

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

country and all but one manufacturing subsidiary were liquidated and their assets, business and good will were transferred to the Maryland company." Which one, or please identify the excepted one.

A. Sutter Packing Company, which operates a fruit and vegetable cannery at Palo Alto, California.

XQ. 50. Not under the name of Safeway Stores?

A. No, sir.

XQ. 51. Are there any stores to your knowledge operating in any state using the name "Safeway" that are not owned by Opposer Maryland corporation? A. Not to my knowledge.

XQ. 52. Are there any stores incorporated in any state under the name "Safeway" or "Safeway Stores" which are not wholly owned by Opposer Maryland corporation?

A. Not to my knowledge.

XQ. 53. It is a fact, is it not, that Opposer Safeway Stores, Incorporated, or any of its said subsidiary companies in any state, never manufactured or caused to be manufactured any toilet seat covers? A. That is correct.

XQ. 54. Has Opposer Safeway Stores, Incorporated, ever sold or offered for sale in any of its said retail stores as mentioned in paragraph 1 of the Notice of Opposition, any toilet seat covers?

A. Not to my knowledge.

XQ. 55. As a matter of fact, it is true, is it not, that Opposer and none of its subsidiary com-

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Milton L. Selby.)

panies, have never offered for sale toilet seat covers under any name?

A. That is true to the best of my knowledge. However, they may have been carried in stock in some stores without my knowledge.

XQ. 56. Do you know who has charge of the Safeway Stores, Incorporated, purchasing department, in Los Angeles?

A. I believe it's Mr. E. S. Wright, operating under Ralph Pringle, our Division Manager.

XQ. 57. Is there a man by the name of J. B. A. Brennan in charge of or connected with the Purchasing Department of Safeway Stores at Los Angeles, California?

Mr. Wilde: I'm going to have to make an objection here, Mr. Westall, on the grounds it's improper cross-examination. I object to this question and any similar line of questions on this ground.

A. Mr. Brennan has been employed as a Grocery Buyer in the Los Angeles Office.

Mr. Westall: Cross-examination closed.

Mr. Wilde: No redirect. Deposition on behalf of the Opposer have been completed and its case is closed.

/s/ MILTON L. SELBY

## Plaintiff's Exhibit No. 3—(Continued)

State of California,  
City of Oakland,  
County of Alameda—ss.

I, Dorothy Dillard, a notary public within and for the County of Alameda and State of California, do hereby certify that the foregoing deposition of Milton L. Selby was taken on behalf of Safeway Stores, Incorporated, in pursuance of the notice hereto annexed, before me, at 4th and Jackson Streets in the City of Oakland in said county on the 8th day of August, 1944; that said witness was by me duly sworn before the commencement of his testimony; that the testimony was written out by myself; that the opposing party was represented by counsel during the taking of said testimony; that the testimony was taken at the offices of Safeway Stores, Incorporated, 4th and Jackson Streets, Room No. 403, in the City of Oakland, County of Alameda, State of California, and was commenced at 10:00 a.m. on the 8th day of August, 1944, and was concluded at 4:30 p.m. of said day; that the deposition was read by said witness before he signed the same, and that he signed the same in my presence; that I am not connected by blood or marriage with either of said parties, nor interested, directly or indirectly, in the matter in controversy.

A true and complete copy of the deposition has been sent by mail, postage prepaid, to the attorney of record for the adverse party.

## Plaintiff's Exhibit No. 3—(Continued)

In testimony whereof, I have hereunto set my hand and affixed my seal of office in the City of Oakland in said County this 16th day of August, 1944.

[Seal]                      /s/ DOROTHY DILLARD,  
Notary Public.

In the United States Patent Office  
Before the Examiner of Interferences

Opposition No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer.

vs.

WARREN W. DUNNELL,  
Applicant.

## NOTICE OF TAKING TESTIMONY

To: Joseph F. Westall, Esq., Suite 702, Wm. Fox Building, 608 South Hill Street, Los Angeles 14, California.

Please Take Notice that on Tuesday, August 8, 1944, at 10 a.m. at the office of Safeway Stores, Incorporated, Fourth and Jackson Streets, Oakland 4, California, we shall proceed to take testimony of witnesses in behalf of Safeway Stores, Incorporated, as follows:

Drummond Wilde, 6159 Acacia Avenue, Oakland, California;

Plaintiff's Exhibit No. 3—(Continued)

Milton L. Selby, 107 Camino don Miguel, Orinda,  
California.

The examination will continue from day to day  
until completed.

SAFEWAY STORES,  
INCORPORATED,  
By /s/ MIDA, RICHARDS &  
MURRAY,  
Its Attorneys.

July 7, 1944.

Service of the above notice acknowledged this  
10th day of July, 1944.

WARREN W. DUNNELL,  
By /s/ JOSEPH F. WESTALL,  
Its Attorney.

In the United States Patent Office  
Before the Examiner of Interferences

Opposition No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer.

vs.

WARREN W. DUNNELL,  
Applicant.

Proof of Service

I, Irene Wilbrand, hereby certify that I am  
employed in the office of Mida, Richards & Murray,



## Plaintiff's Exhibit No. 3—(Continued)

537 South Dearborn Street, Chicago 5, Illinois, attorneys for the opposer, Safeway Stores, Incorporated, and that on Friday, July 7, 1944, I sent via registered, air mail, the original and a copy of the annexed Notice of Taking Testimony upon Joseph F. Westall, Esq., Suite 702, Wm. Fox Building, 608 South Hill Street, Los Angeles 14, California, attorney of record for the applicant, Warren W. Dunnell, and that an acknowledgment of service of said notice appears on the annexed Notice of Taking Testimony.

/s/ IRENE WILBRAND.

State of Illinois,  
County of Cook—ss.

Subscribed and sworn to before me this 13th day of July, 1944.

[Seal]     /s/ CATHERINE J. ROYA,  
Notary Public.

My commission expires Nov. 20, 1947.

In the United States Patent Office  
Before the Examiner of Interferences

Opposition No. 23,281

SAFEWAY STORES, INCORPORATED ,  
Opposer,

vs.

WARREN W. DUNNELL,  
Applicant.

Notice of Taking Testimony

To Safeway Stores, Incorporated, and to Messrs.  
Mida, Richards and Murray, 537 South Dear-

## Plaintiff's Exhibit No. 3—(Continued)

born Street, Chicago 5, Illinois, and Drummond Wilde, Esq., c/o Safeway Stores, Inc., Fourth and Jackson Streets, Oakland, California, Its Attorneys:

You and each of you are hereby notified that on Tuesday, the 12th day of September, 1944, at the office of Messrs. Reynolds and McClain, reporters and notaries, Suite 225 Wilson Building, 132 West First Street, Los Angeles 12, California, at ten o'clock in the forenoon, I shall proceed to take testimony of Warren W. Dunnell, who resides at 1939 Rockford Road, Los Angeles 26, California, and John H. Mengler, who resides at 5901 La Prada Park, Los Angeles 42, California, and possibly others of whom later notice will be given you, as witnesses on behalf of applicant in the above-entitled opposition. The examination will continue from day to day until completed. You are invited to attend and cross-examine.

WARREN W. DUNNELL

By /s/ JOSEPH F. WESTALL,

His Attorney.

Dated: August 9, 1944.

I hereby certify that the within deposition of Milton L. Selby relating to the matter of Safeway Stores, Incorporated, Opposer, vs. Warren W. Dunnell, Applicant, Opposition No. 23,281, was taken and sealed up and addressed to the Com-

Plaintiff's Exhibit No. 3—(Continued)  
Commissioner of Patents, 900 North Lombardy Street,  
Richmond, Virginia, by me this 5th day of Sep-  
tember, 1944.

[Seal] /s/ DOROTHY DILLARD,

Notary Public.

My commission expires October 5, 1947.

In the United States Patent Office  
Before the Examiner of Interferences

Opposition No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,

vs.

WARREN W. DUNNELL,  
Applicant.

### Notice to Produce

To Safeway Stores, Incorporated, and to Messrs.  
Mida, Richards and Murray, 537 South Dear-  
born Street, Chicago 5, Illinois, and Drum-  
mond Wilde, Esq., c/o Safeway Stores, Inc.,  
Fourth and Jackson Streets, Oakland, Cali-  
fornia, Its Attorneys:

Take notice that you are required to produce  
on the taking of testimony on behalf of applicant,  
Warren W. Dunnell, in the above-entitled inter-  
ference, the following paper or document:

Letter written on the letterhead of Sani-  
Gard Cover Company, 3101 Pasadena Avenue,  
Los Angeles 31, California, dated on or about

Plaintiff's Exhibit No. 3—(Continued)

June 19, 1944, and directed to Safeway Stores, Inc., 1925 East Vernon Avenue, Los Angeles, California, and signed by Warren Dunnell, which letter offers paper toilet seat covers to Safeway Stores, Inc.,

—and if you fail to do so, secondary evidence of the contents of said letter will be offered upon the taking of testimony on behalf of applicant, Warren W. Dunnell, in the proceeding in which this notice is entitled.

/s/ JOSEPH F. WESTALL,  
Attorney for Applicant,  
Warren W. Dunnell.

Dated: August 9, 1944.

In the United States Patent Office  
Before the Examiner of Interferences

Opposition No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,

vs.

WARREN W. DUNNELL,  
Applicant.

Affidavit of Service by Mail

State of California,  
County of Los Angeles—ss.

Jeanne Robb, being first duly sworn, says: That affiant is a citizen of the United States and a resi-

## Plaintiff's Exhibit No. 3—(Continued)

dent of the county of Los Angeles. That affiant is over the age of eighteen years, and is not a party to the within and above-entitled action. That affiant's business address is 702 Wm. Fox Building, 608 South Hill Street, Los Angeles 14, California. That on the 9th day of August, 1944, affiant served the foregoing "Notice of Taking Testimony" and the attached "Notice to Produce" on opposer in said opposition, by placing true copies thereof in envelopes addressed to its attorneys at the business addresses of said attorneys, respectively, as follows:

Messrs. Mida, Richards and Murray, 537 South Dearborn Street, Chicago 5, Illinois; Drummond Wilde, Esq., c/o Safeway Stores, Inc., Fourth and Jackson Streets, Oakland, California;

and by then sealing said envelopes and depositing the same, with postage thereon fully prepaid, in the United States Post Office at Los Angeles. That there is delivery service by United States mail at the places so addressed, and there is a regular communication by mail between the place of mailing and the places so addressed.

/s/ JEANNE ROBB.

Subscribed and sworn to before me this ninth day of August, 1944.

[Seal] /s/ PEARL E. BLEWETT,

Notary Public in and for the County of Los Angeles and State of California.

My commission expires March 27, 1948.

Plaintiff's Exhibit No. 3—(Continued)

In the United States Patent Office  
Before the Examiner of Interferences

Opposition No. 23,281

SAFEWAY STORES, INCORPORATED,  
Its Attorney.

vs.

WARREN W. DUNNELL,

Appellant.

Stipulation for the Taking of Testimony on Behalf  
of the Above-Named Applicant Stenographi-  
cally and Transcribing Under Patent Office  
Rule 156.

Stipulated that the testimony on behalf of appli-  
cant, Warren W. Dunnell, may be taken down  
stenographically and transcribed.

Dated this 12th day of September, 1944.

SAFEWAY STORES,  
INCORPORATED,  
Opposer,

By /s/ F. A. HOGE,  
Its Attorney.

WARREN W. DUNNELL,  
Applicant,

By /s/ JOSEPH F. WESTALL,  
His Attorney.



## Plaintiff's Exhibit No. 3—(Continued)

In the United States Patent Office Before the  
Examiner of Interferences

SAFEWAY STORES, INCORPORATED,

Opposer,

vs.

WARREN W. DUNNELL,

Applicant.

Opposition No. 23,281

Depositions of witnesses examined on behalf of the Applicant, pursuant to the annexed notice, at the office of Reynolds & McClain, 225 Wilson Building, 132 West First Street, Los Angeles, California, on Tuesday, September 12, 1944.

Present:

Williamson, Hoge &amp; Judson, by

Fulton W. Hoge, representing

Mida, Richards and Murray, and

Drummond Wilde, on behalf of the Opposer.

Joseph F. Westall, on behalf of the Applicant.

## Plaintiff's Exhibit No. 3—(Continued)

## EXHIBITS

Dunnell Exhibits:	For Ident.	In Evi.
A—Invoice dated June 5, 1934 of Whedon Paper Converting Corporation to Sani-Gard Sales Company for 15 M Safe-Way Paper Toilet Seat Covers .....	5	5
B—Mimeographed form of shipping report headed Whedon Paper Converting Corporation, to Sani-Gard Sales Co. for 2 M Safe Way Seat Covers .....	6	6
C—Mimeographed form of shipping report headed Whedon Paper Converting Corporation, to L. A. Warehouse for 13 M Safe Way Seat Covers .....	6	7
D—Certified copy of fictitious name record of Sani Gard Cover Company of California, filed Feb- ruary 25, 1936.....	-----	16
E—Certified copy of registration of the name “Sani-Gard Sales Company of California,” filed September 13, 1932.....	-----	17
F—Duplicate purchase order headed Sani-Gard Sales Company, to Morton Mfg. Co., dated November 7, 1933.....	19	20
G—Carbon copy of letter on yellow paper to Mr. Charles D. Morton, Morton Mfg. Co., Chicago, Ill., dated November 7, 1933.....	20	21
H—Letter from Morton Manufacturing Company, signed Charles D. Morton, to Mr. Warren Dunnell, dated Nov. 20, 1933.....	21	22
I—Duplicate purchase order of Sani-Gard Sales Company to Morton Mfg. Co., for 20 M Safe- way Paper Seat Covers.....	24	24
J—Original invoice of Morton Manufacturing Co. of Chicago, dated December 9, 1933 for 20 cases of Safe-way Paper Covers.....	25	25

## Plaintiff's Exhibit No. 3—(Continued)

	For Ident.	In Evi.
Dunnell Exhibits (Continued):		
K—Copy of specification and drawings of Dunnell Patent No. 2,025,941, dated December 31, 1935 to W. W. Dunnell for sanitary cover for toilet seats .....	26	26
L—Loose-leaf ledger sheet headed "Wholesale Paper & Twine Co., 447 Commercial St., Los Angeles .....	28	30
M—Paper ribbon with printing in red.....	31	32
N—Brown collapsed carton containing printing in red for inclosing one Safe Way dispensing cabinet .....	32	32
O—Light brown collapsed carton containing certain printing in red.....	33	33
P—Blank letterhead containing on reverse side an advertising description of Safe Way cabinets and covers .....	36	36
Q—Four sheets of white paper tabulations, each sheet headed "Paper Toilet Seat Covers".....	39	41
R—Letter, dated June 19, 1944, on letterhead of Sani-Gard Cover Company, directed to S. H. Kress & Company, signed Warren W. Dunnell .....	43	44
S—Letter, dated June 19, 1944, on letterhead of Sani-Gard Cover Company, directed to Safeway Stores, Inc., signed Warren Dunnell.....	45	45
T—Letter, undated, on letterhead of Sani-Gard Cover Company, directed to Safeway Stores Inc., signed Warren Dunnell.....	45	45
U—Letter, dated June 29, 1944, on letterhead of Safeway Stores, Inc., directed to Sani-Gard Co., signed J. B. A. Brennan.....	45	46
V—Printed copy of statement of United States Patent Office of trademark 329,627 by Morton Manufacturing Company, registered Nov. 5, 1935 .....	46	47
W-1—Trademark statement 346,868, registered June 8, 1937 to Uecker Equipment Company.. .....		49

## Plaintiff's Exhibit No. 3—(Continued)

	For Ident.	In Evi.
Dunnell Exhibits (Continued):		
W-2—Trademark statement 403,449, registered Sept. 28, 1943, to Southern Independent Oil and Refining Company, Inc.....	.....	49
W-3—Trademark statement 196,097, registered March 10, 1925, to American Motor Body Corporation .....	.....	49
W-4—Trademark statement 213,022, registered May 18, 1926, to Modern Office Devices, Inc.....	.....	49
W-5—Trademark statement 261,352, registered Sept. 17, 1929, to Herman Pintel, doing busi- ness as Arlington Products Co.....	.....	49
W-6—Trademark statement 262,413, registered Oct. 8, 1929, to Elgin Rowland Parker, doing business as Merit Manufacturing Co.....	.....	49
W-7—Trademark statement 268,138, registered Mar. 11, 1930, to Frank J. Quigan, Inc. of Brooklyn .....	.....	49
W-8—Trademark statement 271,445, registered June 3, 1930, to Safeway Sales Corporation, of Boston, Mass. ....	.....	49
W-9—Trademark statement 285,750, registered Aug. 4, 1931, to The Logan-Long Company of Chicago .....	.....	49
W-10—Trademark statement 287,569, registered Sept. 29, 1931, to Dean Rubber Manufactur- ing Company of North Kansas City, Missouri .....	.....	49
W-11—Trademark statement 306,075, registered Sept. 5, 1933, to Alexander J. Forbes, doing business as Safeway Laboratories, Oakland, Cal. ....	.....	49
W-12—Trademark statement 324,981, registered June 4, 1935, to Clopay Corporation, Cincin- nati, Ohio .....	.....	49
W-13—Trademark statement 330,655, registered Dec. 10, 1935, to Robert M. Culley, doing business as Safeway Tire Patch Manufactur- ing Company, South Gate, California.....	.....	49

## Plaintiff's Exhibit No. 3—(Continued)

	For Ident.	In Evi.
Dunnell Exhibits (Continued):		
W-14—Trademark statement 333,604, registered Mar. 31, 1936, to Rein A. Uecker, Inc., Wau- watosa, Wis. ....	.....	50
W-15—Trademark statement 341,742, registered Dec. 22, 1936, to Safeway Products Corpora- tion, New York, N. Y. ....	.....	50
W-16—Trademark statement 344,871, registered April 6, 1937, to Western Containers, Inc., Seattle, Washintgon ....	.....	50
Opposer's Exhibits:		
Nos. 42-1 to 42-49, Incl.—Clippings from local newspapers of Safeway advertising.....	.....	62

## JOHN H. MENGLER,

a witness for the applicant, being duly sworn, doth depose and say, in answer to interrogatories proposed to him by Joseph F. Westall, counsel for the applicant, as follows, to-wit:

## Direct Examination

DQ-1 (By Mr. Westall): Please state your name, residence and occupation.

A. John H. Mengler; my residence is 5901 La Prada Park, Los Angeles; occupation, machinist.

DQ-2 Where is your place of business?

A. 3101 Pasadena Avenue, Los Angeles.

DQ-3 How long has your place of business been located as you have just mentioned?

A. Since February, 1939.

DQ-4 Do you know Warren W. Dunnell, the

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

applicant in the opposition in which this testimony is being taken?      A. I do.

DQ-5    How long have you known Warren Dunnell?      A. About 11 years.

DQ-6    Please state if you know what business Warren W. Dunnell is engaged in at the present time.

A. Manufacturing paper toilet seat covers.

DQ-7    To your knowledge, how long has applicant Warren W. Dunnell been engaged in the business of manufacturing and selling paper toilet seat covers?      A. About 11 years.

DQ-8    Does Warren W. Dunnell do business under any fictitious name in the conduct of his toilet seat cover business and, if so, please state the fictitious name under which said applicant conducts his business?

A. The Sani-Gard Cover Company.

DQ-9    I note that the address you have given as your place of business is also the address of Warren W. Dunnell, doing business under the fictitious name of Sani-Gard Cover Company. Please state whether or not you have any interest in the business of Warren W. Dunnell or the Sani-Gard Cover Company in the sale or distribution of paper toilet seat covers or otherwise.

A. I have no financial interest but I have my shop in connection with his place, and I set up his machinery and keep his machinery in repair.

DQ-10    Do you assist or cooperate with the appli-



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

cant Warren W. Dunnell in the conduct of his said business in any other way in the sale of covers?

A. When he is out of town, I take care of his customers and see that the shipping is done.

DQ-11 When and under what circumstances did you first become acquainted with the applicant Warren W. Dunnell?

A. I worked for the Whedon Paper Converting Corporation, at which place he appeared to have paper toilet seat covers made, and the man who was running the business was Vyse B. Whedon. He was the owner of the business. The job was turned over to me and——

DQ-12 Maybe I had better ask another question. When were you first employed by the Whedon Paper Converting Corporation?

A. In 1928.

DQ-13 Since the time last referred to, what have been the nature and duties of your employment by the Whedon Paper Converting Corporation while you were connected with them?

A. I was superintendent and took care of the machinery besides.

DQ-14 To your knowledge, did Warren W. Dunnell ever enter into any negotiations with the Whedon Paper Converting Corporation regarding the manufacture for the applicant in this proceeding of paper toilet seat covers? A. He did.

DQ-15 When were such negotiations last referred to entered into? A. In 1933.

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

DQ-16 Please state if you know whether these negotiations were oral or written.

A. They were all oral.

DQ-17 With what representative of the Whedon Paper Converting Corporation were such oral negotiations by Warren W. Dunnell had?

A. First, with Mr. Whedon, and the job was turned over to me after an hour or so of talk.

DQ-18 Please explain the nature or substance of the negotiations last referred to by you as having been had in the latter part of 1933.

Mr. Hoge: May I ask a question on voir dire?

Mr. Westall: Yes.

Q. (By Mr. Hoge): Mr. Mengler, were you present at the negotiations and the conversation?

A. Yes; not the first hour. Mr. Whedon was there first and then I was called into the office and took it from there on.

Mr. Hoge: I object to a conversation at which he was not present.

Mr. Westall: Yes.

DQ-19 Please state the nature and substance of the negotiations so far as it came under your personal notice and knowledge.

A. I was asked if we could manufacture the article, and I went into an explanation of just how we would do it if we took the job and what the probable cost would be after we had had time to figure it out. There would have to be dies made, the paper ordered and the different equipment has

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

to be built and so on before you can start a job like that. It generally takes quite a while.

DQ-20 After such oral conversations or negotiations, please state whether or not, to your knowledge, Warren W. Dunnell had any business relations relating to paper toilet seat covers with the Whedon Paper Converting Corporation, as a result of such conversations.

A. We started to manufacture paper toilet seat covers for him.

DQ-21 From what period of time did the Whedon Paper Converting Corporation manufacture and furnish to applicant Warren W. Dunnell paper toilet seat covers?

A. I think we started to make them about March, 1934.

DQ-22 I show you what purports to be an original invoice, dated June 5, 1934, of the Whedon Paper Converting Corporation, direct to Sani-Gard Sales Company, 1200 Title Guarantee Building, Los Angeles, California, referring to Whedon bill 6870, said invoice purporting to be for 15 M Safe-Way Paper Toilet Seat Covers, which I request the notary to mark Dunnell Exhibit A for identification. Referring to Dunnell Exhibit A for identification, please state whether you have seen that invoice before.

A. I certainly have because all the invoices passed through me before they were sent out by this company.

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

DQ-23 When did you first see Dunnell Exhibit A for identification?

A. It must have been this date, June 5, 1934.

DQ-24 When did you last see the invoice just referred to, Dunnell Exhibit A for identification, before you testified?

A. About two months ago.

DQ-25 And under what circumstances?

A. We worked together and he pulled it out of his files and showed me the invoice and wanted to know if I would recognize that, and I sure did.

DQ-26 That is, Mr. Dunnell pulled it out of his files?      A. Yes.

Mr. Westall: We offer in evidence the invoice referred to, marked Dunnell Exhibit A for identification, as Dunnell Exhibit A.



WEDON PAPER CONVERTING CORPORATION

318 NORTH AVENUE 22

PHONE: CAPITOL 12145

INVOICE

TO  
Sant-Gard Sales Company  
1200 Title Guarantee Building  
Los Angeles, California

LOS ANGELES 6/5/34 BUYERS ORDER NO. 243 OUR ORDER NO. 6767 VIA REFER TO OUR BILL NO. 6870

TERMS: 2 % 10 DAYS OR 1% 10TH OF MONTH FOLLOWING.

- 15 M Safe-Way Paper Toilet Seat Covers @ 1.65 24.75
- 13 M delivered to L. A. Warehouse
- 2 M picked up by Mr. Dunnell

In the United States Patent Office  
Before the Examiner of Interferences.

Safeway Stores, Incorporated,  
Opposer,  
vs. 1934  
Warren E. Dunnell, Applicant.  
Opp. No. 23,381.

Dunnell Exhibit A, Deposition of Warren E. Dunnell  
Los Angeles, California, September 14, 1944.

Warren E. Dunnell  
Notary Public.





WHEDON PAPER CONVERTING CORPORATION

516 No. Ave. 22

Tel. Capitol 12145

Los Angeles, Calif.

SHIPPING REPORT

Buyer's Order No. 243

TO *Daniel-Land Sales Co.* Our Order No. *6767*

*1200 Little Eastern Blvd.*  
*Los Angeles, Calif.* Via. *P.O.*

*24 - Life Way Seat Covers.*

In the United States Patent Office  
Before the Examiner of Interferences.

Safeway Stores, Incorporated,  
Opposer,

vs.  
Warten W. Dummell,

Applicant.

Dummell Exhibit B Deposition of *John H. Menger*  
Los Angeles, California, September 28, 1934.

*Warten W. Dummell*

OCT 19 1934  
U.S. PATENT OFFICE

*June 5/34*



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of John H. Mengler.)

DQ-31 To your knowledge, what was done with the shipping report and invoice, the shipping report Dunnell Exhibit B and the invoice Dunnell Exhibit A, after being made out?

A. The invoice was mailed, and the shipping report generally goes with the article.

DQ-32 I next show you what purports to be a shipping report dated June 5, 1934, being also, apparently, a mimeographed form, referring to Buyer's Order 243 and Whedon Order 6767, and directed to the L. A. Warehouse, which is corrected, in pencil, to read "13 M Safe Way Seat Covers," which I request the notary to mark for identification as Dunnell Exhibit C, and ask you if the blanks are filled out in your handwriting.

A. That is my handwriting.

DQ-33 Please state whether or not you made that Dunnell Exhibit C for identification out, that is, filled in the blanks, at the time of the date, June 5, 1934.

A. I filled out the blanks.

DQ-34 And what was done with the shipping report Dunnell Exhibit C for identification after you made it out?

A. One sheet goes with the order and the other sheet is filed with the company who manufactured this, which was the Whedon Company.

DQ-35 How does it happen to be directed to the L. A. Warehouse?

A. That is the place where the article was

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

stored. If you will notice here on the bottom, it says, "Delivered for Sani Gard Sales Co.," but it was delivered to this place and they signed our shipping order, so that we have a receipt that it has been delivered to the warehouse.

DQ-36 I notice that the number "14" before "M", for thousand, "Safe Way Seat Covers" has been stricken out in pencil and the numeral "13" put above it.

A. According to the invoice, the invoice shows that there were 15,000 seat covers sold on this particular order. Evidently 1,000 were taken first and then they must have changed their minds and took 2,000 instead, which left a balance of 13,000. So 2,000 were picked up first and then 13,000 were delivered to the Warehouse.

DQ-37 Please state whether or not you saw Dunnell Exhibit C for identification before testifying and under what circumstances.

A. Yes; about two months ago.

DQ-38 Under what circumstances did you see Dunnell Exhibit C for identification two months ago?

A. Mr. Dunnell took it out of his files and showed it to me and asked me whether I recognized it, which I did.

Mr. Westall: We offer in evidence Dunnell Exhibit C for identification as Dunnell Exhibit C.

WREDDON PAPER CONVERTING CORPORATION

216 No. Ave. 22

Tel. Capitol 12145

Los Angeles, Calif.

June 7/34

SHIPPING REPORT

Buyer's Order No. 243

TO

L.A. Warehouse  
316 Commercial St.  
L.A. Cal

Buy Order No.

6767

Via.

D.D.

13

14 - Safe Way Seed Covers  
(13 cartons)

Delivered for Sam Gard Sales Co.  
1200 Little Armenia Blvd  
L.A. Cal

Dunnell & Co. in Ev.

Jan or Mart

In the United States Patent Office  
Before the Examiner of Interferences.

Safeway Stores, Incorporated,  
Opposer,

vs.

Warren W. Dunnell,  
Applicant.

RECEIVED  
OCT 19 1944  
U.S. PAT. OFFICE  
Opp. Mail Bldg.  
25,251.

Dunnell Exhibit C, Deposition of John H. Mangler  
Los Angeles, California, September 28, 1944.

Robert Dunnell  
Notary Public.





Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

DQ-39 Referring to the invoice Dunnell Exhibit A and to the two shipping reports, respectively, Dunnell Exhibits B and C, heretofore offered in evidence, I call your attention to the description of the merchandise as "Safe Way" paper toilet seat covers and ask you if you know how long the trademark "Safe Way" has been applied to paper toilet seat covers by applicant Warren W. Dunnell under the name Sani-Gard Sales Company or Sani-Gard Cover Company.

A. The first time we manufactured paper seat covers in 1934 we immediately stamped each package that went out, which was a carton, with the name "Safe Way Seat Covers" on it.

DQ-40 And what other stamp or name, if any, did you put on?

A. That I don't remember.

DQ-41 I mean did you put the name Sani-Gard Sales Company or Sani-Gard Cover Company on the packages?

A. That I don't believe we did. I don't remember that we did that but I do remember putting the stamp of "Safe Way Seat Covers" on every box that went out.

DQ-42 After the transaction evidenced by Dunnell Exhibits A, B and C, the invoice and the two shipping receipts, all dated June 5, 1934, please state if you know whether or not the Whedon Paper Converting Corporation continued to manufacture for applicant Warren W. Dunnell or the Sani-Gard

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

Sales Company Safe Way paper toilet seat covers?

A. They manufactured them for about a year.

DQ-43 How, if you know, did the Whedon Paper Converting Corporation happen to cease to manufacture such Safe Way paper seat covers for applicant Warren W. Dunnell?

A. The main thing was that the State of Oregon had a minimum wage law less than California did and this was going to be a competitive article, so that the work was taken to Oregon instead of California and was manufactured in Oregon after 1935, about the middle of the year.

DQ-44 Please state whether or not you had any part in closing up the business of the Whedon Paper Corporation. If so, what part did you have?

A. I was appointed to sell all the machinery and close up the business and, wherever the machinery went, I had to install it and instruct the people how to operate it.

DQ-45 Do you know what became of Whedon's Order 6767 as noted on each of Dunnell Exhibits A, B and C?

A. They were all thrown in the incinerator.

DQ-46 They were all destroyed?

A. They were all destroyed.

DQ-47 Please state whether or not the toilet seat covers furnished by the Whedon Paper Converting Corporation to Warren W. Dunnell as Sani-Gard Sales Company were marked or labeled in any manner with the trademark "Safe Way" and, if so,

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

please state how they were marked during the year that Whedon continued to manufacture those covers.

A. That first orders that went out were just put in plain chip cartons, or full telescope cartons they were, and they were hand-stamped. Then we found that those didn't stand up for shipping out of the city. So Mr. Dunnell furnished the cartons for us out of corrugated and those were all printed with everything on them.

DQ-48 Since the Whedon Paper Converting Corporation went out of business, have you been in touch with the activities of Warren W. Dunnell in the sale and distribution of Safe Way toilet seat covers under the name "Safe Way"? If so, in what manner and to what extent?

A. Being in the same building with him, whenever he went out of town, I would take care of whatever business there was, and the cartons were all marked "Safe Way" and marked "Manufactured by the Sani-Gard Cover Company." All of them were marked that way.

DQ-49 Do you know, of your own knowledge, how and to whom applicant Warren W. Dunnell has and does sell and distribute Safe Way toilet seat covers?

A. I know that he sends them all over the United States.

DQ-50 Please explain the nature and source of your information as to how applicant Dunnell sells

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

and distributes Safe Way paper toilet seat covers all over the United States.

A. Being in the same building with him and taking care of his affairs, when he is away, I, naturally, would know something about it. I had to make out shipping tickets and so on and so forth and freight bills, or they call them freight shipping reports to be exact.

DQ-51 Do you know the nature of the customers of Warren W. Dunnell to whom he sells or distributes his Safe Way paper toilet seat covers?

A. Practically all paper jobbers, who, in turn, sell to the consumers.

DQ-52 When did you first move to your present address adjacent the office of Warren W. Dunnell?

A. In February, 1939.

Mr. Westall: You may cross-examine.

### Cross-Examination

XQ-53 (By Mr. Hoge): Did I understand correctly that the toilet seat covers which are referred to in Exhibits A, B and C were destroyed after they were sent to the warehouse?

A. No; after the firm dissolved business. Do you mean from the Whedon Paper Converting Corporation?

XQ-54 Yes.

A. No; the firm went out of business in Dec. 1935 and destroyed practically all records except

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of John H. Mengler.)  
probably—or I don't know as there was anything left.

XQ-55 You are referring to the records of the Whedon Paper Company which were incinerated?

A. Yes; that is it.

XQ-56 On Exhibits B and C it appears that the shipment was made to the L. A. Warehouse, is that correct? A. Surely.

XQ-57 That is a local concern, is it?

A. Yes; right here a couple of blocks from here.

XQ-58 You don't know of your own knowledge what happened to the paper covers after they were delivered to the warehouse, or do you?

A. No; I don't.

XQ-59 When was the first time that you took care of any business for Mr. Dunnell?

A. In 1933; about the latter part of 1933.

XQ-60 Was that just the manufacturing end of it? A. Yes.

XQ-61 Was it the practice then to deliver the paper covers to the L. A. Warehouse?

A. Yes; it was the practice unless he picked them up. Sometimes he probably had customers he wanted to deliver to and then they didn't go to the Warehouse, or if they were shipped out of town.

XQ-62 Did you ever ship any out of town?

A. That is, seat covers?

XQ-63 Yes.

A. I don't remember; not from this first bunch,



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

I don't remember that I did. He took most of them himself.

XQ-64 You don't know of your own knowledge whether any of those were shipped out of town or not? A. The first ones?

XQ-65 The first ones. A. No; I don't.

XQ-66 That original relationship terminated when? A. Just what are you talking about?

XQ-67 You were making paper covers for him or were associated with the Whedon Paper Company, which made them for him, in 1933, I think you said? A. Yes.

XQ-68 And that company went out of business when? A. In 1935.

XQ-69 And I think you moved into the adjacent office to Mr. Dunnell in February, 1939?

A. That is it.

XQ-70 Then, between 1935 and 1939, did you have anything to do with his business?

A. Not a thing.

XQ-71 During that period from 1933 to 1935 inclusive you were connected with the manufacturing end? A. That is it.

XQ-72 And those paper covers which were made for him were either delivered to the Warehouse by him or picked up by the Whedon Paper Company, is that right? A. That is it.

XQ-73 In 1939, I believe you testified, after you moved into the adjacent office, when he was out of town, you took care of his orders while he was away, is that right? A. Yes, sir.

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

XQ-74 In connection with the shipment of any paper covers during that period, just what did you do? A. Do you mean for Mr. Dunnell?

XQ-75 Yes.

A. I would mark all of the cartons and make out the shipping reports and call up the freight company to pick up the stuff and see that the machinery was in order and that the girls were busy.

XQ-76 What do you mean by a shipping report? Do you mean the same sort of thing as Exhibits B and C?

A. No. They were made out to railroads. Some of these were made out to local jobbers. There were regular shipping reports and then the freight shipping report is a different article.

XQ-77 Was it a bill of lading?

A. A bill of lading is right.

XQ-78 Does that show where the purchaser is located to whom it is to be shipped? A. Yes.

XQ-79 Can you recall any of those which called for shipment out of California?

A. Well, for instance, I would say the Leslie Paper Company of Minneapolis, Minnesota, the Fick Paper Company of Chicago, and some other firms I don't remember. But those are two of them that I remember distinctly.

XQ-80 Do you remember when the first shipment was made to any of these concerns that you mentioned? A. No; I don't.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of John H. Mengler.)

XQ-81 You are still connected with Mr. Dunnell, are you?

A. I am not connected with Mr. Dunnell directly.

XQ-82 I mean you have the same relationship that you had at the beginning, February, 1939?

A. Yes, sir.

XQ-83 And have had continuously since that time? A. Yes, sir.

XQ-84 Did these cartons, in 1939 and from then on, have the name "Safe Way" on them?

A. They always had.

XQ-85 That is, on the box and not on the seat cover itself? A. On the box.

XQ-86 Not on the seat cover?

A. Oh, no. You couldn't mark it on the seat cover.

XQ-87 It has no name at all, I suppose, on it?

A. No.

XQ-88 Didn't Mr. Dunnell ever discuss that name with you, that is, how he came to adopt it?

A. No, sir.

XQ-89 Do you recall the size of the name on the carton?

A. There is one there which you can get an idea from.

Mr. Hoge: Do you propose to introduce that, counsel?

Mr. Westall: I am going to introduce it in evidence later. Let the record show that the witness has referred to a large collapsed carton which will

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of John H. Mengler.)

later be offered in evidence as a Dunnell exhibit, and which will later be identified by Mr. Dunnell.

XQ-90 (By Mr. Hoge): Were there any customers, other than jobbers, who bought these seat covers, Mr. Mengler?

A. Not that I know of. There might have been some that came in there and picked up a few of them but I don't know anything about that. Those probably would have been cash customers, but not while I was there anyway.

XQ-91 Do you know whether any of these customers were engaged in the retail business?

A. Not any that I know of. Practically all of the customers were paper jobbers.

XQ-92 How do you know that?

A. Because I would make out the invoices or not the invoices but the shipping reports and bills of lading, and it would tell you right there what they are. And, when the orders came in, I would have to read the orders in order to ship and they would, naturally, have on their letterheads just what business they were engaged in.

XQ-93 And that indicated they were in the wholesale business? A. Yes, sir.

XQ-94 You are basing your answer, then, just on the statements or the letterheads or documents of the customers? A. Yes, sir.

Mr. Hoge: I think that is all.

Mr. Westall: No redirect examination.

/s/ JOHN H. WENGLER

## Plaintiff's Exhibit No. 3—(Continued)

WARREN W. DUNNELL,

the applicant, being duly sworn, doth depose and say, in answer to interrogatories proposed to him by Joseph F. Westall, counsel for the applicant, as follows, to-wit:

## Direct Examination

By Mr. Westall:

DQ-1 State your name, residence and occupation.

A. Warren W. Dunnell; 1939 Rockford Road, Los Angeles 26; I am a manufacturer of paper toilet seat covers.

DQ-2 What is the nature or organization of the Sani-Gard Cover Company?

A. That is a fictitious firm name of the company under which I do my business and I am the sole owner of the business.

DQ-3 During what period of time have you continued to do business under the name of Sani-Gard Cover Company?

A. From 1936 until the present time.

DQ-4 Did you ever file a certificate of doing business under such fictitious name in the county clerk's office of Los Angeles County?

A. I did.

Mr. Westall: We offer in evidence, as Dunnell Exhibit D, a certified copy of the fictitious name record filed with the county clerk, showing its filing on February 25, 1936.

DQ-5 Please state whether or not you have con-

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

tinued to operate under the fictitious name "Sani-Gard Cover Company" since the date of this registration as shown in Dunnell Exhibit D.

A. I have continued to operate under that name since that time.

DQ-6 Up to the present time?

A. Up to the present date.

DQ-7 During the period of time last mentioned, what has been the nature of your business conducted under the fictitious name of Sani-Gard Cover Company?

A. The manufacture and distribution and sale of paper toilet seat covers marked with the trademark "Safe Way" as set out in my application for registration of that mark, of which these proceedings are a part.

DQ-8 Prior to your first adoption and use of the fictitious name "Sani-Gard Cover Company," what was the nature of your business and under what name did you operate?

A. My business was the sale and distribution of paper toilet seat covers and I used the fictitious firm name of Sani-Gard Sales Company.

DQ-9 Please state whether or not you were the sole owner of both of the businesses conducted under the names of Sani-Gard Sales Company and Sani-Gard Cover Company.

A. I was the sole owner of both the Sani-Gard Cover Company and the Sani-Gard Sales Company.

Mr. Westall: We now offer in evidence a cer-



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

tified copy, of the county clerk of Los Angeles County, of the registration of the name "Sani-Gard Sales Company of California" as Dunnell Exhibit E, the certificate showing a filing date of September 13, 1932.

DQ-10 Where was your place of business under the fictitious name Sani-Gard Sales Company?

A. For a few months it was located in the Roosevelt Building at 727 West Seventh Street in Los Angeles and shortly after that I conducted the business in the Title Guarantee Building at 411 West Fifth Street, Los Angeles.

DQ-11 When and under what circumstances did you first use the trademark "Safe Way" as described in your application for registration involved in this interference or in this opposition?

A. I first used it on October 28, 1933.

DQ-12 Will you explain just how you used it at the date you have last mentioned?

A. I took a steel dispensing cabinet which I had and printed out the words "Safe Way Paper Toilet Seat Covers" and applied it, that is, the name "Safe Way," on this steel dispensing cabinet. Then I also took some of my paper toilet seat covers and placed a wrapper around them and labeled those also "Safe Way Paper Seat Covers" and loaded the dispensing cabinet with the Safe Way Seat Covers and called on one of my jobber customers herein Los Angeles and exhibited that Safe Way dispensing cabinet and Safe Way seat covers, so

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

marked, to them for their sale or for their consideration and with a prospect for my selling those products so marked.

DQ-13 How do you happen to fix the date October 28, 1933, referred to in your last answer, after this length of time?

A. Well, the circumstances surrounding that situation with respect to adopting a name were very important to me and they were, naturally, impressed upon my mind. I had given a great deal of thought and consideration to the adoption of a name that would be acceptable for my purpose and acceptable to my customers, and it was therefore impressed very carefully and very thoroughly upon my mind as to my doing that at that particular time. Also, I have refreshed my recollection with respect to that by referring to certain of my purchase orders for a supply of Safe Way dispensing cabinets and Safe Way toilet seat covers which were ordered very shortly after that date and at that time. I therefore am very certain of that date.

DQ-14 After labeling and exhibiting the cabinet with the name "Safe Way" on October 28, 1933, as you have described, what did you next do with regard to having any order or anything made up for such cabinets?

A. I wrote a purchase order and addressed it to the Morton Manufacturing Company to have a number of dispensing cabinets made and also made up a purchase order for them to furnish me with

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

some paper toilet seat covers also, to be labeled with the trademark "Safe Way."

DQ-15 You have referred to the Morton Manufacturing Company. Where was that located?

A. In Chicago.

DQ-16 I place before you what purports to be a duplicate purchase order, headed "Sani-Gard Sales Company," dated November 7, 1933, Order No. 216, directed to the Morton Manufacturing Company, for 2 Safeway seat cover cabinets (Wall Type), at \$1, which I ask the notary to mark for identification as Dunnell Exhibit F, and ask you if this is the purchase order to which you have just referred.

A. It is.

DQ-17 Can you state who actually typed the purchase order marked for identification Dunnell Exhibit F?

A. Yes; I typed it myself.

DQ-18 You personally typed it?

A. I personally typed it on my own typewriter. I was operating only in a very small way at that time and had no regularly employed stenographer and did practically all of my own correspondence and was typing my own letters and orders.

DQ-19 This Dunnell Exhibit F for identification appears to be a carbon copy. Please state whether a ribbon copy was made at the same time.

A. Yes. This is a copy and there was an original.

DQ-20 Where did you send the original purchase order?

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

A. The original of that purchase order was mailed to the Morton Manufacturing Company at Chicago, Illinois, and I personally mailed it, as I took care of all my mail personally.

DQ-21 At the address stated on the purchase order?

A. I mailed it to the address stated on the purchase order copy.

DQ-22 Please state whether you stamped the envelope with a postage stamp.

A. It was my practice to use regular United States stamped envelopes. So the order was put in a regular United States government stamped envelope and mailed by me.

DQ-23 Personally by you?

A. Personally.

Mr. Westall: We offer Dunnell Exhibit F for identification in evidence as Dunnell Exhibit F.



# PURCHASE ORDER

DUPLICATE

## SANI-GARD SALES COMPANY OF CALIFORNIA

1200 TITLE GUARANTEE BUILDING  
LOS ANGELES, CALIFORNIA

November 7 1933

Morton Mfg. Co.,  
8105 West Lake St.,  
Chicago, Ill

ORDER NO 216

PUR. REC. NO. \_\_\_\_\_  
THESE NUMBERS MUST APPEAR ON  
YOUR INVOICE, EACH PACKAGE  
AND BILL OF LADING

PLEASE SHIP TO US AT Los Angeles, Calif.

PARCEL POST RUSH

c. c. Chicago, Ill

QUANTITY	MATERIAL AND DESCRIPTION	PRICE	UNIT
2	SAFEGWAY seat cover Cabinets (Wall Type)	1.00	
Specifications as per our letter this date.			
Please RUSH-- This order very important.			
<p>In the United States Patent Office Before the Examiner of Interferences.</p> <p>SAFEGWAY SEAT COVERS, Incorporated, Opposer,</p> <p>Warren W. Dunnell, Applicant.</p> <p>Opp. No. 23,281.</p> <p>Dunnell Exhibit <u>7</u>, Deposition of <u>Warren W. Dunnell</u>, Los Angeles, California, September 12, 1944.</p> <p><i>Roscoe Reynolds</i> Notary Public.</p>			

### CONDITIONS:

1. ACKNOWLEDGE RECEIPT OF THIS ORDER BY RETURN MAIL. ADVISING IF SHIPMENT WILL BE MADE ON DATES REQUESTED. THE RIGHT IS RESERVED TO CANCEL ALL OR ANY PART OF THIS ORDER IF NOT SHIPPED WITHIN TIME SPECIFIED.
2. ALL MATERIAL FURNISHED MUST CONFORM WITH OUR SPECIFICATIONS WHERE INDICATED. IF NOT FOUNDED IN ACCORDANCE, SHIPMENT WILL BE REJECTED AND HELD AT YOUR RISK AWAITING DISPOSITION. SHIPPER MUST PAY ALL TRANSPORTATION CHARGES BOTH WAYS. ON ALL SELECTED MATERIAL.
3. SEPARATE INVOICE FOR EACH ORDER MUST BE MAILED ON DAY OF SHIPMENT WITH SIGNED BILLS OF LADING SHOWING FULL ROUTING.
4. WE WILL NOT BE RESPONSIBLE FOR GOODS DELIVERED EXCEPT ON A PROPERLY AUTHORIZED PURCHASE ORDER.

SANI-GARD SALES COMPANY

PURCHASING AGENT





Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DQ-24 I place before you what purports to be a carbon copy of a letter on a yellow sheet of paper, without a letterhead, addressed to Mr. Charles D. Morton, Morton Mfg. Co., Chicago, Ill. and dated November 7, 1933, and ask you if you wrote such letter. A. I did.

DQ-25 Did you personally typewrite the original and this carbon as you have described?

A. I did.

DQ-26 After the letter was written, what was done with the original?

A. I placed it in an envelope properly stamped and placed it in the mail together with a purchase order which was for the cabinets. I believe they were both sent at the same time, that is, mailed at the same time.

DQ-27 When you refer to the purchase order, do you mean Dunnell Exhibit F?

A. That is right; yes, sir.

DQ-28 Please state whether or not you signed the original letter.

A. Oh, yes; I signed it with my signature.

DQ-29 And you placed the proper postage upon it and mailed it to the Morton Company, did you?

A. I mailed it in a regular stamped envelope and put it in the United States mails, with my signature on the original.

DQ-30 Please state whether or not on the original letter, of which Dunnell Exhibit G for identification is a carbon copy, there was contained any other matter than shown on the carbon copy.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

A. It was written, of course, on a letterhead of mine, of the Sani-Gard Sales Company. Merely the name of the fictitious firm was there as well as the address and the signature was also on the original.

DQ-31 And there were no other changes in the letter? A. There were no other changes.

Mr. Hoge: Counsel, may I ask what the purpose of this letter is?

Mr. Westall: It is to show in connection with the other documents an adoption and actual use inasmuch as the opposition in a paragraph has denied the ownership of the trademark which is established by adoption and use, and this is all corroborative of the adoption and use.

Mr. Hoge: I should think his direct testimony would be sufficient for that. It is a self-serving document, isn't it?

Mr. Westall: Any deed is a self-serving document, of course.

Mr. Hoge: Well, I won't object to it.

DQ-32 (By Mr. Westall): I notice that in the first paragraph there is certain underlining in pencil. Do you know whether that was on the original that you sent? A. No; I don't believe so.

DQ-33 That has been placed on later, has it not?

A. That has been placed on there at some later date.

Mr. Westall: We offer in evidence Dunnell Exhibit G for identification as Dunnell Exhibit G.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

In the United States Patent Office  
Before the Examiner of Interferences

Opp. No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,

vs.

WARREN W. DUNNELL,  
Applicant.

DUNNELL EXHIBIT G

Deposition of Warren W. Dunnell, Los Angeles,  
California, September 12, 1944.

/s/ ROSS REYNOLDS,  
Notary Public.

Docket Division, U. S. Patent Office, Oct. 19, 1944.  
November 7 1933

Mr. Charles D. Morton,  
Morton Mfg. Co.,  
Chicago, Ill.

Dear Mr. Morton:

This will acknowledge receipt of your airmail-special delivery letter of the 6th, which was received this afternoon. I have been anxiously awaiting receipt of this information, and needless to say I was not only mighty glad to get it, but overwhelmingly pleased with your acquiescence to the suggestions I have made, and the splendid help and backing you are giving me to go after the possible business I

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

see probable on the West Coast for this new seat cover to be known as "Safeway." Here is my assurance that nothing short of a calamity is going to keep me from producing results.

Yesterday I had a phone call from Mr. Remmers of the Crown-Willamette Paper Co., telling me that his inquiry of their San Francisco office in respect to conversion of the seat covers from paper made by their mill, resulted in information to the effect that the Mill was not equipped at present to do the actual conversion. They were however very much interested in the inquiry, and will be very pleased to cooperate with us or any paper converter, in respect to acting as a source of supply for the paper itself. I shall continue my investigation as to the possibility of securing other quotations from converters, in addition to price quoted by Angelus, but in the absence of anything further of interest, I will make up my proposal to Zellerbach in San Francisco, on the basis of prices outlined in my letter of October 28th. I must have our proposition before them by the 26th of this month, for consideration at their Standardization Conference, to begin on that date, and which I believe I told you is attended by all their Pacific Coast Branch Managers.

In connection with my proposition to the Zellerbach Paper Co., I think it is very important that I provide for their consideration at the meeting, a sample Safeway, wall type cabinet. Accordingly I am enclosing order #216 for 2 Safeway wall type cabinets to be rushed to me parcel post with all

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

possible speed. If necessary I think you should make these two cabinets up special, so that I will be sure to have them, one of which to send Zellerbach in time for their meeting. The other one I want for consideration by the Associated Oil Co. in San Francisco.

I have the Auditorium Building here, which houses our Philharmonic Auditorium, interested in the new Wall type cabinet, but they do not like the red, white and blue coloring at all. Consequently I have wired you, suggesting that we would much prefer decalcomanias of a gold color (similar to Sani Guard) for the new Safeway Cabinets, I feeling sure that this will be more generally acceptable too. I hope you can do this without difficulty. But do not hold up shipment of the two cabinets on order #216 for any appreciable time, if this should cause any delay.

In the Third item on first page of your letter of the 6th, in respect to the paper, you mention that it will be supplied without paper wrapper at the top of the pad. Please, by all means, do not leave this off. As suggested in a previous letter of yours, this paper wrapper is of considerable assistance in keeping the sheets of the pad in position, after the pad has been put in the cabinet, if left on the pad and not torn off. Sanitor have a paper wrapper on their pads with the words printed on it "Do not remove this wrapper." I believe that by all means we should have a wrapper on the pad, the Vend Gard wrapper should be all right except turned over and



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

the printing would not show from the under side.

With respect to paper wrapper for the feet of the pad, I mean that the bradding process (wire Clips) should be eliminated, and the small paper wrapper only, put on the feet, as is now done on Vend-Gard.

I suggest providing two wood screws only, as per sample enclosed, with each cabinet. It is not necessary to have bolts also included, of any type. The screws alone will meet the requirements of 95% of the installations. The holes of course should fit the screws properly. The screws could be included in some kind of an envelope together with the cabinet lock key.

I enclose orders for both cabinets and paper with proper shipping instructions. Mr. Goody, representative here for Menasha, has offer any cooperation he can in respect to shipment of paper in their cars to the Coast. Menasha has about 12 cars a month to Los Angeles, about 7 per month to San Francisco, and about 2 cars a month to Seattle. Some service, much of an improvement over Northern.

Received order today for 50 cases Sani Gard from Metro Goldwyn, and if my order #212 arrives as expected in Northern Car released last Thursday or Friday, I can made delivery and collection therefor so that I can send you at least a \$100.00 more than the \$200.00 previously promised for this month. The delay in shipment of order

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

#211, for Blake Moffitt & Towne, has resulted in their drawing unexpectedly, and rather heavily on my warehouse stock here, so I need order #212 badly.

With my kindest regards,

Yours very truly,

WD/L

DQ-34 I place before you what purports to be an original letter on the letterhead of the Morton Manufacturing Company of Chicago, Illinois, dated November 20, 1933, which I request the notary to mark for identification Dunnell Exhibit H, and ask you how that letter happened to come in your possession?

A. It came into my possession in the regular course of my business through the mail.

DQ-35 And when was it received?

A. It was received within two or three days after November 20, 1933.

DQ-36 And has it been in your custody since its receipt and until you turned it over to me for the purposes of this case?

A. It has.

DQ-37 Can you identify the signature attached to Dunnell Exhibit H for identification?

A. It seems to be the signature of Charles D. Morton, vice-president of the Morton Manufacturing Company.

DQ-38 I notice there is a small "k" after the name or the signature.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

A. Well, it is possible that that might have been signed for Mr. Morton by his secretary who wrote the letter and she initialed it in that way.

Mr. Westall: We offer in evidence Dunnell Exhibit H for identification as Dunnell Exhibit H.

In the United States Patent Office  
Before the Examiner of Interferences

Opp. No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,

vs.

WARREN W. DUNNELL,  
Applicant.

DUNNELL EXHIBIT H

Deposition of Warren W. Dunnell, Los Angeles,  
California, September 12, 1944.

/s/ ROSS REYNOLDS,  
Notary Public.

Docket Division, U. S. Patent Office, Oct. 19, 1944.

[Letterhead Morton Manufacturing Company]  
Nov. 20, 1933.

Mr. Warren Dunnell,  
1200 Title Guarantee Bldg.,  
Los Angeles, California.

My dear Warren:

Your letter of the 18th which, of course, crossed

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

my communication of the same date, in the mails, has just come to hand.

I full realize the urgency on your part for the receipt of the two special Safe-Way Cabinets—and if it had not been for our desire to hand-letter the entire cabinet in gold, for presentation purposes on your part, same might have been released several days ago. However, the cabinets are now en route to you—having been sent via parcel post, special delivery, and we are sure that they will arrive in ample time for your needs.

Best wishes—

Sincerely,

MORTON MANUFACTURING  
COMPANY,

/s/ CHARLES D. MORTON, k  
Vice President.

CDM:K.

DQ-39 Please state whether or not you received the two cabinets as per your purchase order No. 216 and the letter which you have described as accompanying such purchase order to the Morton Manufacturing Company and dated November 9th, and both in evidence as Dunnell Exhibits F and G.

A. I think you made a mistake there. I received these two dispensing cabinets that were ordered herein accordance with my Order No. 216.

DQ-40 You mentioned in your answer some mistake. Will you please explain what you mean?

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

A. You referred to something of the date of November 9th.

DQ-41 I meant dated November 7th. I made a mistake. A. That is right.

DQ-42 When did you receive said two cabinets last referred to?

A. In the latter part of November, 1933.

DQ-43 Please state whether or not the two cabinets last referred to were marked with the trademark "Safeway" as directed in your letter and purchase order, Dunnell Exhibits F and G.

A. They were marked in that way.

DQ-44 When did you first order toilet seat covers bearing the name "Safe Way" as described in your application involved in this opposition?

A. On November 9, 1933.

DQ-45 That was the same date as the order Dunnell Exhibit F and the letter Dunnell Exhibit G, is that correct?

A. No; that was two days later.

DQ-46 What was the nature of the business of the Morton Manufacturing Company at the time last referred to?

A. They were manufacturers of railway equipment and industrial steel products.

DQ-47 Was the Morton Manufacturing Company in the business of manufacturing toilet seat covers at the time last referred to or at any other time?

A. No; they were manufacturing industrial

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

equipment of one kind or another, which included steel dispensing cabinets for paper toilet seat covers, and they purchased paper toilet seat covers from paper mills in their vicinity there in the middle west and resold the paper seat covers.

DQ-48 How did you happen to place the order of November 9, 1933, last referred to, with the Morton Manufacturing Company for toilet seat covers marked with the trademark "Safe Way?"

A. They were properly connected with the paper mills in that locality for the product known as paper toilet seat covers and they were giving me a satisfactory price and, as long as I was buying my dispensing cabinets from them for those paper seat covers, it was natural for me to buy also the paper seat covers from them.

DQ-49 I hand you what purports to be a duplicate of a purchase order, dated November 7, 1933, numbered 224, directed to the Morton Manufacturing Company, for 20 cases, 2,000, Safeway paper seat covers, which I will ask the notary to mark for identification as Dunnell Exhibit I, and ask you if that is the order which you have just referred to.

A. This is the order except that I believe I made a mistake in saying November 9th and it should have been November 7, 1933.

DQ-50 It was the same date as the order for the cabinets, Dunnell Exhibit F?

A. That is right.

DQ-51 And did you type the original ribbon



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)  
copy of which Dunnell Exhibit I for identification  
is a carbon?           A. I did; I typed it.

DQ-52 And, after you typed it, what did you do  
with it?

A. I signed it and put it in the mail personally,  
with the proper postage on the envelope.

DQ-53 And addressed to whom?

A. And addressed to the Morton Manufacturing  
Company at Chicago, Illinois.

DQ-54 Did you afterwards receive from the  
Morton Manufacturing Company the 20 cases, 2,000,  
paper toilet seat covers, labeled with your trade-  
mark "Safe Way" and referred to in your order?

A. I received these 20,000 seat covers and that  
would mean 20 cases rather than the 2,000 which  
you mentioned.

DQ-55 Yes; 20,000, it should be.

A. Yes; that is right.

Mr. Westall: We offer in evidence, as Dunnell  
Exhibit I, the exhibit by the same lettering hereto-  
fore marked for identification.

# PURCHASE ORDER

**SANI-GARD SALES COMPANY**  
OF CALIFORNIA  
1200 TITLE GUARANTEE BUILDING  
LOS ANGELES, CALIFORNIA

November 7 1933

Morton Mfg. Co.,  
Chicago, Ill

ORDER No 224

SHIP TO US AT Los Angeles, Calif. / Los Angeles Warehouse.  
Next morning bill car to Los Angeles.

PUR. REQ. NO. \_\_\_\_\_  
THESE NUMBERS MUST APPEAR ON  
YOUR INVOICE, EACH PACKAGE  
AND BILL OF LADING

W. B. MORTON, WASH.

QUANTITY	MATERIAL AND DESCRIPTION	PRICE
20 M	RAILWAY paper seat covers	2.40
Specifications as per our letter this date.		

IN THE UNITED STATES PATENT OFFICE  
Before the Examiner of Interferences.

—  
Railway Seaters, Incorporated,  
Opposer,  
vs.  
Warren W. Dunnell,  
Applicant.

Opp. No. 23,281.

Dunnell Exhibit I, Deposition of Warren W. Dunnell,  
Los Angeles, California, September 12, 1944.

Ross Reynolds  
Notary Public.

## CONDITIONS:

1. ACKNOWLEDGE RECEIPT OF THIS ORDER BY RETURN MAIL. ADVISING IF SHIPMENT WILL BE MADE ON DATES REQUESTED. THE RIGHT IS RESERVED TO CANCEL ALL OR ANY PART OF THIS ORDER IF NOT SHIPPED WITHIN TIME SPECIFIED.
2. ALL MATERIAL FURNISHED MUST CONFORM WITH OUR SPECIFICATIONS WHERE INDICATED. IF NOT FOUND IN ACCORDANCE, SHIPMENT WILL BE REJECTED AND HELD AT YOUR RISK AWAITING DISPOSITION. SHIPPER MUST PAY ALL TRANSPORTATION CHARGES BOTH WAYS, ON ALL REJECTED MATERIAL.
3. SEPARATE INVOICE FOR EACH ORDER MUST BE MAILED ON DAY OF SHIPMENT WITH SIGNED BILLS OF LADING SHOWING FULL ROUTING.
4. WE WILL NOT BE RESPONSIBLE FOR GOODS DELIVERED EXCEPT ON A PROPERLY AUTHORIZED PURCHASE ORDER.

SANI-GARD SALES COMPANY

PURCHASING AGENT



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DQ-56 I place before you what purports to be an original invoice, dated December 9, 1933, of the Morton Manufacturing Company of Chicago, referring to your order No. 224, and its date, apparently misdated, is 11-9-33, for 20 cases of Safe Way paper seat covers at \$2.40, \$48, which I request the notary to mark for identification as Dunnell Exhibit J, and ask you if you recognize that document and when you first saw it.

A. I first saw this invoice within a few days after its date of December 9, 1933, on which date the goods were shipped to me, consisting of 20 cases or 20,000 Safe Way paper toilet seat covers.

DQ-57 I notice there appears to be a slight discrepancy in the date of Dunnell Exhibit I and the statement at the head of Dunnell Exhibit J for identification in that, while the order is correctly numbered, the date is 11-9-33, while your order appears to be November 7th. Can you explain that?

A. I can't explain it. I could only surmise that either the stenographer or whoever made out the Morton invoice made a mistake in specifying it as 11-9-33 instead of 11-7-33, or I may possibly may not have mailed this for two days after November 7, 1933, and may have changed the original to November 9, 1933, and didn't change this particular copy. That would be my only supposition which would cause that discrepancy.

Mr. Westall: We offer in evidence Dunnell Exhibit J for identification as Dunnell Exhibit J.



# MORTON MANUFACTURING COMPANY

5105-43 West Lake Street, Chicago, U. S. A.

CABLE ADDRESS—"Mormano," Chicago. Codex—A. B. C. 5th Edition, Bentley's, Lieber's.

CUSTOMER	Order No. and Date	224 11-9-33	Invoice Date	12-9-33	THIS COLUMN RESERVED FOR CUSTOMER
	Requisition No.		Invoice No.	2894	
	Contract No.		Shipper's Order No.	2818-3	
Shipped to same % Los Angeles Warehouse Company			P. A. Invoice No.		
Destination Los Angeles, California			Voucher No.		
Terms 2% 10 days net 30			CHECKED ( <ul style="list-style-type: none"> <li>With Order</li> <li>F. O. B. Point</li> <li>Price</li> <li>Calculations</li> <li>Transportation</li> <li>Trans. Charged Back</li> </ul> )		
SANI-GARD SALES COMPANY OF CALIFORNIA 1200 TITLE GUARANTEE BUILDING LOS ANGELES, CALIFORNIA					

Date Shipped 12-9-33 From Chicago F. O. B. Chicago  
 Car Number and Initial Frt. Prepd. & Allwd.  
 How Shipped and Route Universal Carloading

DESCRIPTION	QUANTITY (SHOW UNIT)	PRICE PER UNIT	AMOUNT
Cases Safe-way Paper Covers	20	2.40	48.00
<i>See exhibit 4 of deposition in Ex.</i>			

Above Material Received 19\_\_\_\_, and is satisfactory. Signed \_\_\_\_\_ Title \_\_\_\_\_

Charge Account \_\_\_\_\_ Approved \_\_\_\_\_ Approved \_\_\_\_\_

WE HEREBY GUARANTEE THAT THE GOODS COVERED BY THIS INVOICE WERE PRODUCED OR MANUFACTURED IN ACCORDANCE WITH THE FEDERAL CHILD LABOR ACT OF SEPTEMBER 1ST, 1916.

MORTON MANUFACTURING

FORM No. 52M 5M 4-33 AT2828 BUSINESS UNICOR SYSTEMS, CHICAGO

In the United States Patent Office  
 Before the Examiner of Interferences.

SECURITY DIVISION  
 OCT 19 1934  
 DEPT. OF JUSTICE  
 Security Stores, Incorporated,  
 Opposer,  
 vs.  
 Warren W. Dunnell,  
 Applicant.

Opp. No. 23,281.

Dunnell Exhibit J, Deposition of Warren W. Dunnell,  
 Los Angeles, California, September 12, 1944.  
 R. S. Reynolds  
 Notary Public.





Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

DQ-58 Please state if you received the toilet seat covers ordered from the Morton Manufacturing Company and described in said invoice Dunnell Exhibit J.

A. Yes; I received those Safe Way paper toilet seat covers within a few days after the invoice date of December 9, 1933.

DQ-59 Were those seat covers marked or labeled with your trademark "Safe Way" as you had directed? A. They were.

DQ-60 Prior to your order No. 224, Dunnell Exhibit I, to the Morton Manufacturing Company, had the Morton Manufacturing Company or anyone else, to your knowledge, ever used the trademark "Safe Way" as applied to toilet seat covers?

A. They never had that I know of.

DQ-61 Who designed the toilet seat covers which you ordered from the Morton Manufacturing Company in your order Dunnell Exhibit I?

A. I did.

DQ-62 Has the toilet seat cover which you have sold under the trademark "Safe Way" been patented? A. It has.

DQ-63 I show you a copy of the specification and drawings of Dunnell patent No. 2,025,941, dated December 31, 1935, to W. W. Dunnell, for sanitary cover for toilet seats, and ask you if that is the patent to which you have referred, requesting the notary to mark said patent for identification as Dunnell Exhibit K. A. It is.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DQ-64 Are you the owner of said patent marked for identification as Dunnell Exhibit K?

A. I am.

Mr. Westall: We offer in evidence the patent heretofore marked for identification as Dunnell Exhibit K as Dunnell Exhibit K.

DQ-65 You have heretofore testified, particularly referring to Dunnell Exhibits F and G, the order and letter, both of November 7, 1933, that you received from the Morton Manufacturing Company paper toilet seat cover cabinets labeled, under your directions, with the name "Safe Way." Please state what you did with these two cabinets.

A. I had ordered those two cabinets for sample purposes to be used in promoting the sale of my paper seat covers and dispensing cabinets with that name "Safe Way," and one of those cabinets I furnished to a paper jobber, the Zellerbach Paper Company of San Francisco, and the other cabinet I used to solicit business for the sale of my covers marked "Safe Way" and the cabinets marked also with the trademark "Safe Way."

DQ-66 Please state when you made a first sale of either of said cabinets, with paper toilet seat covers marked "Safe Way" therein.

A. I made my first sale of Safe Way paper toilet seat covers and Safe Way cabinets on December 12, 1933.

DQ-67 How do you happen to remember, after this length of time, that it was December 12, 1933, when you first sold toilet seat covers labeled with

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

your trademark "Safe Way" in a cabinet also labeled with the trademark "Safe Way," which cabinet was furnished by the Morton Manufacturing Company as you have testified?

A. This first sale was a very important transaction to me, it being my first sale of paper toilet seat covers and dispensing cabinets marked with the trademark "Safe Way," and it was therefore, naturally, impressed upon my mind. Also, I have refreshed my recollection with respect to that first sale by looking into my records, where I found a ledger sheet of the Wholesale Paper and Twine Company in Los Angeles which has an entry thereon which I can identify as being this sale of one Safe Way dispensing cabinet and 1,000 Safe Way paper seat covers. With my recollection so refreshed, I can be positive it was that date.

DQ-68 Have you kept books of account of your business in the sale of toilet seat covers under the fictitious name of Sani-Gard Sales Company and Sani-Gard Cover Company?

A. Yes; I have.

DQ-69 Who actually made the entries in such books? A. I did.

DQ-70 Please explain, briefly, how such records or books of account were kept, taking, if you wish, as a specific instance your account with the Wholesale Paper and Twine Company which you have just mentioned.

A. Well, the procedure was in the nature of a customer, whom I had probably solicited, sending

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

me their order in either one of two ways. If it was an order from an out-of-town customer, it would, naturally, come by means of a purchase order which they had sent to me in the mail. If it was a local customer here in Los Angeles, where I had my office, very frequently the procedure was to call my office on the phone and the order was taken over the phone either by me or, if I was not there, by a girl who I had taking care of my business through a so-called telephone service. Such transactions would be handled by means of a pencil memorandum being made of the customer's order. The goods would then be shipped or delivered and an invoice typed out, one original and one copy, and mailed to the customer, covering that sale. Then a copy of that transaction would be made from the invoice copy into or onto my regular ledger account for that particular customer.

DQ-71 Or from the order which you took if it wasn't an invoice?

A. We always made invoices for every transaction wherever any merchandise was sold.

DQ-72 What book would you make an entry in? Did you have a daybook or a journal?

A. No. For that particular type of transaction there was merely a copy of the transaction made onto a ledger sheet from the copy of the invoice.

DQ-73 I place before you what purports to be a loose-leaf ledger sheet headed "Wholesale Paper & Twine Co., 447 Commercial St., Los Angeles," the

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

first entry of which is "1933, Dec. 12, Folio 779, Debits, \$2.75, Balance, \$2.75," which I request the notary to mark for identification as Dunnell Exhibit L, and ask you to state whether or not that is your original ledger sheet of the account of the Wholesale Paper & Twine Company to which you have just referred.

A. That is the ledger sheet to which I have just referred.

DQ-74 Referring to Dunnell Exhibit L for identification, please state in whose handwriting are the entries on the sheet.

A. They are in my handwriting.

DQ-75 Please explain, briefly, the events which led up to the procedure of making the first entry on Dunnell Exhibit L for identification, reading, "1933, Dec. 12, Folio 779, Debits, \$2.75, Balance, \$2.75."

A. The procedure would have been and was to copy onto this ledger sheet from the copy of invoice, either on the same day of that invoice or a few days thereafter, this information which shows the date December 12, 1933, the invoice No. 779, and the amount of the invoice.

DQ-76 Does Folio 779 on Dunnell Exhibit L for identification indicate the invoice?

A. My invoice number.

DQ-77 And not the folio of any other book?

A. No; that doesn't refer to anything else.



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DQ-78 Can you produce invoice 779 last referred to? A. Do you mean the original?

DQ-79 The original.

A. I couldn't produce the original; no.

DQ-80 Or a copy of it?

A. No; I can't produce a copy of it.

DQ-81 What became of invoice 779 or the copy?

A. The original was mailed to the customer. The copy I do not have because it is such an old record. I have made a practice of keeping copies of my invoices for a period of at least three years but after that I have not kept them.

DQ-82 Is the Wholesale Paper & Twine Company now in existence?

A. I understand they are no longer in business.

DQ-83 How do you happen to be able, so long after the entry, to state positively what the item referred to in said ledger sheet Dunnell Exhibit L for identification relates to?

A. Because, as I testified before, this was my first sale of Safe Way paper toilet seat covers and cabinets, and this particular account, the Wholesale Paper & Twine Company, was also a new account with me: and I primarily secured them as a customer and an account because of my display and solicitation of their business with my new Safe Way paper toilet seat cover and Safe Way cabinet; and I can recognize that the price entered on the ledger sheet was for a quantity, as the price would indicate, which I can recall, and it very definitely is

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

for 1,000 Safe Way paper toilet seat covers and there was one Safe Way dispensing cabinet that I leased, with no charge.

DQ-84 Please state whether or not the Safe Way seat covers that were furnished with the cabinet were labeled with your mark "Safe Way," referring particularly to the transaction shown on Dunnell Exhibit L for identification.

A. Yes; those seat covers were marked with my trademark "Safe Way."

Mr. Westall: We offer in evidence, as Dunnell Exhibit L, the ledger sheet heretofore marked Dunnell Exhibit L for identification.



SHEET NO. \_\_\_\_\_  
 RATING \_\_\_\_\_  
 BUSINESS \_\_\_\_\_

CREDIT LIMIT \_\_\_\_\_

NAME WHOLESALE PAPER & TWINE CO  
 ADDRESS 447 COMMERCIAL ST. LOS ANGELES.

ACCOUNT NO. \_\_\_\_\_

DATE 1933.

Dec 12 ✓  
 Dec 13 ✓  
 Jan 1 ✓  
 Feb 1 ✓  
 Mar 1 ✓  
 Apr 1 ✓  
 May 1 ✓  
 June 1 ✓  
 July 3 ✓  
 Aug 17 ✓  
 Oct 23 ✓  
 24

ITEMS

FOLIO

DEBITS

CREDITS

BALANCE

779	270	270	270
828	N.C.		
836	270	270	270
1001	300	300	
1003	300	300	300
1014	300	300	600
1161	270	270	

C/L 270

In the United States Patent Office  
 Before the Examiner of Interferences.

Safeway Stores, Incorporated,  
 vs. A  
 Warren W. Dunnell, Applicant.  
 Opposer.

Opp. No. 23,281.

Dunnell Exhibits, Deposition of Warren W. Dunnell  
 Los Angeles, Calif., September 12, 1934.

*W. W. Dunnell*  
 Notary Public.

NOTARY  
 DIVISION  
 JAMES CO  
 14 100



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DQ-85 What became of the other cabinet that you received from the Morton Manufacturing Company in compliance with your letter and order, Dunnell Exhibits F and G?

A. The other Safe Way cabinet I kept and used for soliciting business and used it for sales purposes as an exhibit of my product.

DQ-86 From the time of the first adoption and use of the trademark "Safe Way" as applied to toilet seat covers, have you continued uninterruptedly to the present time to sell said products under said trademark "Safe Way?"

A. Ever since my adoption and first use of the trademark "Safe Way" for paper toilet seat covers, I have continued to use it.

DQ-87 And since the time shown in Dunnell Exhibits F, G and I from whom have you procured cabinets and toilet seat covers marked with your trademark "Safe Way?"

A. I have procured them from a number of concerns, the Whedon Paper Converting Company, Morton and some others.

DQ-88 I place before you a paper ribbon with certain printing thereon in red, which I request the notary to mark for identification Dunnell Exhibit M, and ask you if that is a sample of the bands which you used as labels on your toilet seat covers and which you sold under the trademark "Safe Way" from the time of your first adoption



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

and use of said name, as you have heretofore testified.

A. These are the bands which I am using at the present time as a wrapper around 100 of my paper toilet seat covers which I sell under the trademark "Safe Way."

DQ-89 Please state how that compares with the band that you first used on toilet seat covers at the time of your first adoption and use.

A. The band which I first used would be similar in nature to this. There would be some change in the printing or in the copy of the printing. This one, for example, shows the patent number, which did not come into existence until 1935. But the bands used previous to that time were similar to this.

DQ-90 And from what time did you say that you used such bands similar to Dunnell Exhibit M for identification, as you have just described?

A. I have used this band since in 1936. The patent was granted on December 31, 1935, and, presumably, very shortly after that patent grant came to my notice, I started using bands of this type, with this type of printing.

DQ-91 And, up to 1936, or the date you have just mentioned, please state what kind of bands you used.

A. A band similar in nature and size and type to this band which is Exhibit M.

DQ-92 I notice that Dunnell Exhibit M for iden-

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

tification contains the marking "Patent No. 2,025,941." Please state whether or not that was on the original bands, like Dunnell Exhibit M for identification, which you first used when you adopted the name "Safe Way."

A. No. As I have explained, the first bands would not have contained that notation.

Mr. Westall: We offer in evidence the band heretofore marked Dunnell Exhibit M for identification as Dunnell Exhibit M.

DQ-93 I place before you a light brown collapsed carton, carrying on each side certain printing in red, which I request the notary to mark for identification as Dunnell Exhibit N, and ask you if that is a carton in which you have inclosed and sold toilet seat covers such as you have heretofore described, labeled with the band Dunnell Exhibit M.

A. No; that is a carton in which I inclosed one Safe Way dispensing cabinet.

DQ-94 Please state how long you used cartons like and similar to Dunnell Exhibit N for identification for dispensing cabinets.

A. I used these probably for six or seven years.

Mr. Westall: We offer in evidence the collapsed carton, heretofore marked Dunnell Exhibit N for identification, as Dunnell Exhibit N.

(By agreement between counsel, a recess was taken, at the hour of 12:00 o'clock noon, to the hour of 2:00 o'clock p.m. of the same date.)

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

(Met pursuant to adjournment, at the hour of 2:00 o'clock p.m. on the same date and at the same place.)

DQ-95 In cabinets like and similar to those heretofore described as being inclosed in cartons like Dunnell Exhibit N, you inclosed toilet seat covers, did you not, labeled with the words "Safe Way?"

A. I also had a carton which I used to pack paper toilet seat covers in and that was also labeled "Safe Way."

DQ-96 I place before you a light brown collapsed carton, having certain printing, in red, on each of its four sides, which carton I request the notary to mark for identification Dunnell Exhibit O, and ask you if that is a sample of the form of carton in which you sold paper toilet seat covers, such as you have heretofore described, labeled with your trademark "Safe Way."

A. That is a carton which I am now using and have been using for packaging my Safe Way paper toilet seat covers and have had imprinted on the four sides of that carton the trademark "Safe Way."

DQ-97 And during what period have you used Dunnell Exhibit O for identification?

A. I have used this particular type and style of carton for quite a number of years. I have changed the style possibly somewhat from time to time but,

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

to all intents and purposes, the particular sample illustrates and shows how the packaging has been done over a period of years, ever since I started manufacturing Safe Way paper toilet seat covers and called them by the trade name "Safe Way."

Mr. Westall: We offer in evidence, as Dunnell Exhibit O, the carton heretofore marked for identification by said letter O.

DQ-98 I note that on Exhibits N and O, in the first of which your dispensing cabinet is inclosed, and in the second of which you sell toilet seat covers marked "Safe Way," \* \* you have prominently informed that the seat covers were manufactured by the Sani-Gard Cover Company. Please state how long you have continued to prominently display the origin of your seat covers either under the fictitious name of Sani-Gard Sales Company or Sani-Gard Cover Company and both.

Mr. Hoge: At this point may the record show the printing of the words "Sani-Gard Cover Company" is in letters very much smaller than the words "Safe Way?"

Mr. Westall: Yes; I think that sufficiently shows.

A. Ever since I have been selling and distributing paper seat covers with the trade name "Safe Way," I have marked them with the name "Safe Way" and also my fictitious firm name "Sani-Gard Sales Company" or, as I am doing at the present

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

time, with the name "Sani-Gard Cover Company, Los Angeles."

DQ-99 And I take it you have used the name "Sani-Gard Cover Company" on your packages of Safe Way since the time you adopted that fictitious name in 1936, is that correct?

A. That is correct.

DQ-100 And, prior to that time, is it correct to say that you used on such containers the name "Sani-Gard Sales Company?"

A. Yes; the carton in which the cabinets or the paper seat covers were packed, showing the trademark "Safe Way," was then designated as the Sani-Gard Sales Company as the source of manufacture.

DQ-101 How, if at all, have you advertised your products or product, toilet seat covers?

A. I have advertised them in a number of ways. One of the methods which I have used to develop considerable business has been to secure a listing in different paper directories which are published and distributed to paper jobbers and others interested in using paper products. Those are directories showing all kinds of different types of paper products and have sub-headings and listings under different paper items, among which are included paper toilet seat covers, and that listing would also show and has always shown my fictitious name of the Sani-Gard Sales Company or the Sani-Gard Cover Company, with the address in Los Angeles. Also, I have prepared circulars of one kind and another,



Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

sometimes circulars, which we call envelope stuffers, with an illustration and description of my product "Safe Way Paper Seat Covers," and sent those out in envelopes, and in my regular mailing I have also prepared letterheads showing my fictitious firm name "Sani-Gard Sales Company" or "Sani-Gard Cover Company," and in some instances those letterheads were made up in what we call a broadside form where there were supplemental pages to the letterhead and those supplemental pages illustrated and described the product "Safe Way Paper Toilet Seat Covers" and "Safe Way Cabinets." Then considerable advertising has been done by means of personal solicitation and furnishing samples whenever they have been asked for by inquiries that have come in by mail from prospective customers all over the country. I have used also in my business an invoice form which always has contained my name "Sani-Gard Sales Company" or "Sani-Gard Cover Company."

DQ-102 Referring specifically to the listings which you have mentioned, have you set forth in those lists your trademark "Safe Way" as applied to toilet seat covers or have you merely listed them as toilet seat covers?

A. In these directories I have merely listed my firm name as a source of supply for paper toilet seat covers and the particular trade name "Safe Way" has not been mentioned.



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DQ-103 When, by reason of such advertising or otherwise, you were contacted regarding the possible sale of toilet seat covers, how and in what manner, if at all, did you inform the prospective customers of your trademark "Safe Way" as applied to said seat covers?

A. That was by answering such inquiries as came in the mail, generally speaking, by writing a letter and enclosing literature illustrating and describing my product "Safe Way" toilet seat covers.

DQ-104 I place before you a blank letterhead purporting to be of the Sani-Gard Cover Company, carrying on its back an advertising description of Safe Way cabinets and covers, which I request the notary to mark for identification as Dunnell Exhibit P, and ask you if you can identify that paper.

A. Yes; this is one of my letterheads which contains an illustration and description of my Safe Way paper toilet seat covers and cabinets.

DQ-105 Referring to the advertising on the back advertising the name "Safe Way," how long have you continued to use that form of advertising on the letterheads of the Sani-Gard Cover Company or the previous company, the Sani-Gard Sales Company?

A. I believe this particular letterhead here was made up some time in 1939, shortly after I acquired this address of 3101 Pasadena Avenue, and I have been using it ever since.

DQ-106 Had you ever used that particular method before that time, with the description on

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

the back of it, referring to Dunnell Exhibit P for identification?

A. Yes; I have used that at other times.

DQ-107 Since when or during what time?

A. I should say, since 1934 or 1935, in this particular way I have had letterheads with advertising literature made up.

DQ-108 From the time of your first adoption of the name "Safe Way" as applied to toilet seat covers, have you had a letterhead in which you prominently displayed the name Sani-Gard Cover Company or, prior to the adoption of that name, the Sani-Gard Sales Company?

A. Yes; I have.

Mr. Westall: We offer Dunnell Exhibit P for identification in evidence as Dunnell Exhibit P.

Mr. Hoge: May I ask, counsel, if I may be furnished with two copies of this various advertising matter and labels except the wrapper which Mr. Dunnell has already furnished me?

Mr. Westall: I think we can do that; yes.

A. Yes; we can do that.

DQ-109 How extensively has "Sani-Gard" as a part of your fictitious name become known in local and interstate commerce?

A. It has become known rather extensively because I have been selling and am now selling and have been selling for some years Safe Way paper toilet seat covers throughout the United States and

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

in foreign countries under the name of Sani-Gard Sales Company and Sani-Gard Cover Company.

DQ-110 In what manner, if at all, had the name "Sani-Gard" in connection with your business or organization become known in connection with the sale of toilet seat covers prior to your adoption of the trademark "Safe Way?"

A. Prior to that, I had been selling a seat cover which I had branded with the trade name "Sani-Gard," the same as my fictitious firm name, and had been selling and distributing those paper seat covers for a couple of years before I started in to market paper toilet seat covers which I marked "Safe Way" as the result of having adopted and used that name in 1933.

DQ-111 When did you use the word "Sani-Gard," during what time?

A. 1931 and 1932 and for possibly two or three years more.

DQ-112 During all the time that you have been in the business of selling toilet seat covers under the name "Safe Way" as you have described, have any of your prospective customers or anyone else ever mistaken the source of such Safe Way toilet seat covers as being from the opposer in this case, the Safeway Stores, Incorporated?

Mr. Hoge: I object to that as calling for a conclusion of the witness.

Q. (By Mr. Westall): I mean so far as your knowledge goes, so far as you know.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

Mr. Hoge: The same objection.

A. So far as I know, there has never been any mistake with reference to my covers having come from anyone other than my concern, the Sani-Gard Sales Company or the Sani-Gard Cover Company.

DQ-113 (By Mr. Westall): Has any instance ever come to your knowledge of anyone ever mistaking the source of your toilet seat covers under the trademark "Safe Way" as being the opposer's in this case, Safeway Stores, Incorporated?

Mr. Hoge: I object to that on the same ground, that it calls for a conclusion.

A. No.

DQ-114 (By Mr. Westall): When and how extensively have you used the trademark "Safe Way" as applied to toilet seat covers in interstate commerce or in commerce with foreign countries or in foreign commerce?

A. It has become used rather extensively throughout the United States and in foreign countries as a result of my promotion of the sale. The volume, of course, with respect to sales was small to start with in 1933 but continually from that date on, in 1934 and 1935, the volume of sales for the Safe Way seat covers in interstate commerce throughout the United States and the territorial possessions of this country and foreign countries has grown considerably up to the present time.

DQ-115 Have you prepared a tabulation showing the extent of your sales of toilet seat covers

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)  
under the trade name "Safe Way", as well as other seat covers under other names, in various States of the Union and also in territorial possessions and foreign countries?

A. Yes; I made a copy off of my records of the sales for my Sani-Gard and Vend-Gard paper seat covers as well as my Safe Way paper toilet seat covers.

DQ-116 I place before you four sheets of white paper tabulations, each sheet headed "Paper toilet seat covers", which I request the notary to mark for identification as Dunnell Exhibit Q, and ask you if that is the tabulation to which you have just referred.

A. Yes; this is the tabulation.

DQ-117 Please state, briefly, how and from what date such tabulation, Dunnell Exhibit Q for identification, was prepared.

A. It was prepared by going over my sales records which have been kept to show the volume of sales for the different kinds of seat covers by States and foreign countries, if any. The tabulation was taken from all of the necessary records to acquire this information as to the time and place of shipment and sale and the volume of such sale.

DQ-118 Does the tabulation Dunnell Exhibit Q for identification represent accurately the data as set forth therein? A. It does.

DQ-119 And the books and records from which



Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

said data were taken, as I understand you, were made solely by yourself?

A. Yes; I kept all of the records.

DQ-120 I notice that on Dunnell Exhibit Q for identification, on page 1, you have headed the tabulated matter with the name "Sani Gard" and "Vend Gard" and "Safe Way". Please explain the significance of such headings.

A. Those represent the brand names for three different types of paper toilet seat covers, one of them called Sani Gard, one of them called Vend Gard, and one of them called Safe Way.

DQ-121 On page 4 of Dunnell Exhibit Q for identification the sub-heading referred to is only "Safe Way". Please explain the omission of the other headings above referred to and shown on previous sheets.

A. I discontinued the sale of the other two.

DQ-122 Still referring to Dunnell Exhibit Q for identification, please explain fully the year dates, lists of States and countries, and the figures of the tabulation.

A. The tabulation is made up by years, starting, first, with the year 1931 and, under 1931, is shown the State name, California. Opposite California is shown the figure 120,000. That would represent my sales of 120,000 Sani-Gard paper toilet seat covers in the State of California during the year 1931. Then, with respect to the year 1932, there is a listing of States, California, Oregon, Wash-



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)  
ington, Idaho, Nevada, Utah and Arizona, and opposite each one of those names is a figure which represents the number in thousands of seat covers under the brand name "Sani-Gard" that were sold during that year 1932. Going on with the tabulation, further explanation is similar to that. For example, in 1933, we have listed a number of States and the quantity shown under the name "Sani Gard" and also the quantity shown under the name "Vend Gard" and also under the name "Safe Way", and those quantities are listed opposite each State and represent the quantity of that particular brand of seat cover sold in that particular State during the particular year in which that group is included. The same thing applies to 1934, to 1935 and to 1936, all on page 1. On page 2 there are two years, 1937 and 1938, and, under each of the columns "Sani Gard" and "Safe Way" is shown the quantity of seat covers of either brand, Sani Gard or Safe Way, that were sold in the different States, territories or countries listed. The same thing will apply for the years 1939 and 1940 on page 3 and the same thing will apply for the year 1941 shown on page 4.

DQ-123 So, for instance, when, on the first page of Dunnell Exhibit Q for identification, there appears "1934, California", and you list 510,000 under the heading "Safe Way", that means that during that year you sold 510,000 individual Safe Way seat covers in California, is that correct?

A. That is correct; yes.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

Mr. Westall: We offer in evidence Dunnell Exhibit Q for identification as Dunnell Exhibit Q.

### DUNNELL EXHIBIT Q

In the United States Patent Office  
Before the Examiner of Interferences

Opp. No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,

vs.

WARREN W. DUNNELL,  
Applicant.

Deposition of Warren W. Dunnell, Los Angeles,  
California, September 12, 1944. /s/ Ross Reynolds, Notary Public.

		Paper Toilet Seat Covers		
1931		Sani Gard	Vend Gard	Safe Way
	California .....	120,000	.....	.....
1932				
	California .....	618,000	.....	.....
	Oregon .....	140,000	.....	.....
	Washington .....	25,000	.....	.....
	Idaho .....	5,000	.....	.....
	Nevada .....	5,000	.....	.....
	Utah .....	10,000	.....	.....
	Arizona .....	15,000	.....	.....
1933				
	California .....	2,100,000	22,000	1,000
	Oregon .....	300,000	.....	.....

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

		Paper Toilet Seat Covers	
	Sani Gard	Vend Gard	Safe Way
1933			
Washington .....	250,000	.....	.....
Idaho .....	20,000	.....	.....
Nevada .....	40,000	.....	.....
Utah .....	60,000	.....	.....
Arizona .....	78,000	.....	.....
1934			
California .....	2,300,000	101,000	510,000
Oregon .....	900,000	.....	90,000
Washington .....	100,000	.....	40,000
Idaho .....	8,000	.....	.....
Nevada .....	10,000	.....	.....
Utah .....	10,000	.....	.....
Arizona .....	20,000	.....	20,000
1935			
California .....	2,100,000	32,000	1,630,000
Oregon .....	946,000	.....	800,000
Washington .....	100,000	.....	250,000
Idaho .....	.....	.....	10,000
Nevada .....	20,000	.....	20,000
Utah .....	10,000	.....	50,000
Arizona .....	10,000	.....	30,000
Illinois .....	100,000	.....	11,000
Hawaii .....	.....	.....	50,000
1936			
California .....	1,432,000	.....	5,252,000
Oregon .....	150,000	.....	1,350,000
Washington .....	50,000	.....	350,000
Idaho .....	5,000	.....	10,000
Nevada .....	10,000	.....	20,000
Utah .....	5,000	.....	120,000
Arizona .....	5,000	.....	50,000
Hawaii .....	.....	.....	30,000
1937			
California .....	950,000	.....	5,879,000
Oregon .....	100,000	.....	2,200,000
Washington .....	110,000	.....	1,250,000
Idaho .....	.....	.....	20,000
Nevada .....	.....	.....	30,000

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

	Paper Toilet Seat Covers		
	Sani Gard	Vend Gard	Safe Way
1937			
Utah .....	.....	.....	200,000
Arizona .....	.....	.....	100,000
Hawaii .....	.....	.....	250,000
Texas .....	.....	.....	50,000
Colorado .....	.....	.....	20,000
New Mexico.....	.....	.....	10,000
Montana .....	.....	.....	50,000
Kansas .....	.....	.....	30,000
Arkansas .....	.....	.....	10,000
1938			
California .....	97,000	.....	6,390,000
Oregon .....	.....	.....	2,400,000
Washington .....	.....	.....	800,000
Idaho .....	.....	.....	50,000
Utah .....	.....	.....	100,000
Arizona .....	.....	.....	150,000
Florida .....	.....	.....	50,000
Colorado .....	.....	.....	100,000
Missouri .....	.....	.....	50,000
Montana .....	.....	.....	150,000
Oklahoma .....	.....	.....	50,000
New York .....	.....	.....	50,000
Indiana .....	.....	.....	25,000
Massachusetts .....	.....	.....	25,000
Kentucky .....	.....	.....	10,000
Illinois .....	.....	.....	100,000
Pennsylvania .....	.....	.....	50,000
New Jersey .....	.....	.....	50,000
Texas .....	.....	.....	100,000
Tennessee .....	.....	.....	50,000
West Virginia .....	.....	.....	50,000
Iowa .....	.....	.....	100,000
Ohio .....	.....	.....	150,000
Maryland .....	.....	.....	50,000
Minnesota .....	.....	.....	150,000
Hawaii .....	.....	.....	250,000
Canada .....	.....	.....	100,000
South America .....	.....	.....	20,000

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

1939	Paper Toilet Seat Covers		
	Sani Gard	Vend Gard	Safe Way
California .....	25,000	.....	6,171,000
Oregon .....	.....	.....	1,050,000
Washington .....	.....	.....	850,000
Idaho .....	.....	.....	50,000
Utah .....	.....	.....	100,000
Arizona .....	.....	.....	175,000
Florida .....	.....	.....	40,000
Colorado .....	.....	.....	75,000
Missouri .....	.....	.....	50,000
Montana .....	.....	.....	100,000
Oklahoma .....	.....	.....	50,000
New York .....	.....	.....	60,000
Indiana .....	.....	.....	30,000
Massachusetts .....	.....	.....	40,000
Kentucky .....	.....	.....	.....
Illinois .....	.....	.....	120,000
Pennsylvania .....	.....	.....	.....
New Jersey .....	.....	.....	60,000
Texas .....	.....	.....	120,000
Tennessee .....	.....	.....	50,000
West Virginia .....	.....	.....	50,000
Iowa .....	.....	.....	110,000
Ohio .....	.....	.....	160,000
Maryland .....	.....	.....	50,000
Minnesota .....	.....	.....	200,000
Hawaii .....	.....	.....	300,000
Canada .....	.....	.....	50,000
South America .....	.....	.....	.....
1940			
California .....	.....	.....	7,033,000
Oregon .....	.....	.....	2,125,000
Washington .....	.....	.....	750,000
Idaho .....	.....	.....	60,000
Utah .....	.....	.....	110,000
Arizona .....	.....	.....	190,000
Florida .....	.....	.....	50,000
Colorado .....	.....	.....	80,000
Missouri .....	.....	.....	50,000

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

	Paper Toilet Seat Covers		
	Sani Gard	Vend Gard	Safe Way
1940			
Montana .....	.....	.....	110,000
Oklahoma .....	.....	.....	50,000
New York .....	.....	.....	70,000
Indiana .....	.....	.....	50,000
Massachusetts .....	.....	.....	50,000
Kentucky .....	.....	.....	10,000
Illinois .....	.....	.....	150,000
Pennsylvania .....	.....	.....	20,000
New Jersey .....	.....	.....	50,000
Texas .....	.....	.....	200,000
Tennessee .....	.....	.....	50,000
West Virginia .....	.....	.....	.....
Iowa .....	.....	.....	100,000
Ohio .....	.....	.....	150,000
Maryland .....	.....	.....	50,000
Minnesota .....	.....	.....	250,000
Hawaii .....	.....	.....	400,000
South Dakota .....	.....	.....	.....
Canada .....	.....	.....	.....
Michigan .....	.....	.....	50,000
1941			
California .....	.....	.....	11,215,000
Oregon .....	.....	.....	1,950,000
Washington .....	.....	.....	870,000
Idaho .....	.....	.....	50,000
Utah .....	.....	.....	250,000
Arizona .....	.....	.....	300,000
Florida .....	.....	.....	.....
Colorado .....	.....	.....	220,000
Missouri .....	.....	.....	150,000
Montana .....	.....	.....	170,000
Oklahoma .....	.....	.....	100,000
New York .....	.....	.....	120,000
Indiana .....	.....	.....	100,000
Massachusetts .....	.....	.....	.....
Kentucky .....	.....	.....	.....
Illinois .....	.....	.....	350,000
Pennsylvania .....	.....	.....	50,000



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

1941	Paper Toilet Seat Covers		
	Sani Gard	Vend Gard	Safe Way
New Jersey .....	.....	.....	50,000
Texas .....	.....	.....	870,000
Tennessee .....	.....	.....	.....
West Virginia .....	.....	.....	.....
Iowa .....	.....	.....	50,000
Ohio .....	.....	.....	250,000
Maryland .....	.....	.....	100,000
Minnesota .....	.....	.....	550,000
Hawaii .....	.....	.....	850,000
South Dakota .....	.....	.....	10,000
Michigan .....	.....	.....	100,000
Wisconsin .....	.....	.....	60,000

Docket Division, Oct. 19, 1944, U. S. Patent Office.

Mr. Hoge: May I have three copies of that?

Mr. Westall: We don't have them but we have a stipulation that, before the testimony is sent away, if any photostatic copy is needed, either side will have an opportunity to get photostatic copies of the other's exhibits at their own cost.

DQ-124 Please explain, briefly, the kind and character of the various purchasers for use of your toilet seat covers sold by you under the trademark "Safe Way" since your first adoption and use of said trademark as you have testified.

A. My Safe Way paper seat covers have been sold to gasoline service stations, hotels, restaurants, office buildings, industrial plants and motion picture studios and in fact to many types of business that operate a public restroom.

DQ-125 Such as railroad companies or municipalities?

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

A. Wherever an industry or a business operates a public restroom, whether it is a railroad or a steamship line or a bus lines that has station terminals or whether it is a newspaper building that publishes newspapers, they are all types of concerns to whom I have sold toilet seat covers under the name "Safe Way".

. DQ-126 How have the purchasers just referred to by you distributed said seat covers to the general public under your trademark "Safe Way" or any other trademark to which you have referred?

A. They have distributed them by installing our dispensing cabinets in the toilet stalls of their public restrooms into which the pad or package of paper toilet seat covers is inserted for dispensing, and the public that use those restrooms go into the stall and procure for their own use, without any charge, a paper toilet seat cover out of the dispensary and use it as it is generally used.

DQ-127 Have such toilet seat covers, under the trademark "Safe Way" or under any other trademarks which you have mentioned, to your knowledge, been sold by grocery stores, chain stores, drug stores or wholesale or retail stores of any kind for direct distribution to private users or the public generally?

A. I have never sold my seat covers in that way.

DQ-128 What has been the nature and extent of your experience in finding a market for the sale of your toilet seat covers under any trademark?

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

A. My experience has been rather extensive. I started in this business in 1931 and have devoted all of my time and attention to the development of my business in that line ever since, which has involved calling on many and different kinds of prospects and making trips all over the United States, such as to New York and Chicago, in the promotion of my product. I have gone into all lines and phases of the business, manufacturing, selling direct to consumers, and selling to jobbers, and I have even installed dispensing cabinets in restrooms to dispense the covers. So that I should say I have given every consideration to all types and classes of outlets for a product of this kind. Of course, it has been my endeavor to develop and increase my business at any and all times so that I have tried not to overlook any and all prospects and possibilities to sell my product extensively throughout the country.

DQ-129 Have you ever considered the feasibility of selling said toilet seat covers, labeled with the trademark "Safe Way" or with any other trademark, to the general public through retail or wholesale stores, such as grocery stores, drug stores, general stores or otherwise?

A. Yes; I have given it consideration, of course.

DQ-130 And what is your opinion as to the feasibility of distributing toilet seat covers to the stores mentioned in the last question or others or to the general public for use, for instance, in private homes?

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

A. As a result of my efforts and investigation into the possibility of selling my Safe Way seat covers in that way, I have contacted that type of concern, such as chain stores and grocery stores, but my efforts have always been repulsed due to the reaction that they were not suitable for sale in that type of stores; and, even though my efforts have been taken along those lines, I have never been able to find that as a satisfactory outlet for my particular product, the Safe Way paper toilet seat covers.

DQ-131 Can you give any specific instance where you approached any chain stores, drug stores, grocery stores or other private distributors to the general public, on the subject of purchasing your toilet seat covers under the name "Safe Way" or under any other trade name or without any name and, if so, please explain how you made such approach?

A. A couple of months ago I wrote a few circular letters to a number of chain stores, the A & P grocery stores, the Safeway grocery stores, S. H. Kress & Company and F. W. Woolworth & Company.

DQ-132 And with what result?

A. Those letters were sent with the idea of seeing if I had been overlooking any possibilities in respect to sales to outlets of that kind and I didn't have any satisfactory results at all. The only replies I had were negative.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DQ-133 I now place before you what purports to be a letter, dated June 19, 1944, on the letterhead of Sani-Gard Cover Company, and directed to S. H. Kress & Company, Los Angeles, California, and signed "Warren Dunnell", and ask the notary to mark the same for identification as Dunnell Exhibit R, and ask you to state if that is one of the letters which you have just referred to as having been sent by you.

A. Yes; this is one of the letters I referred to.

DQ-134 Who actually typed Dunnell Exhibit R for identification? A. I did.

DQ-135 Was that the original letter that you sent to Kress & Company?

A. That is the original letter I sent; yes.

DQ-136 And who signed the letter Dunnell Exhibit R?

A. I signed the letter that was addressed to them and the original was returned to me signed as "S. H. Kress & Co., C. M. Williams, Manager, 6/20/44."

DQ-137 After writing the letter Dunnell Exhibit R, please state whether or not you mailed it to the addressee.

A. I did; I mailed it in the regular way, with postage, in the regular United States mails.

DQ-138 After mailing the letter Dunnell Exhibit R for identification as you have just described, please explain what next happened to the letter.

A. The letter was received by me in the mail

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)  
with the notation shown on the bottom of it and  
signed "S. H. Kress & Co., C. M. Williams, Mgr."

Mr. Westall: We offer in evidence Dunnell Exhibit R for identification as Dunnell Exhibit R.

DUNNELL EXHIBIT R

In the United States Patent Office Before  
the Examiner of Interferences

Opp. No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,

vs.

WARREN W. DUNNELL,  
Applicant.

Deposition of Warren W. Dunnell, Los Angeles,  
Calif., September 12, 1944. /s/ Ross Reynolds,  
Notary Public.

[Letterhead]: Sani-Gard Cover Company.  
June 19, 1944

S. H. Kress & Co.,  
621 So. Broadway,  
Los Angeles, Calif.

Gentlemen:

We are manufacturers of sanitary paper toilet  
seat covers.

Before taking up your time with details of a sales



Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

proposition, we should like to inquire if you would consider our product as suitable for merchandising to the public in your stores?

Your ideas in this respect at your convenience will be much appreciated.

Yours very truly,

/s/ WARREN DUNNELL.

Our opinion is there would not be enuf volume in the above item to warrant handling.

S. H. KRESS & CO.,

/s/ C. M. WILLIAMS, Mgr.

6/20/44.

I here remind counsel for opposer that there was served with the notice of taking of these depositions a notice to produce a certain letter, dated on or about June 19, 1944, directed to Safeway Stores, Incorporated, Los Angeles, California, and signed by Warren Dunnell, offering toilet seat covers for sale to Safeway Stores, Incorporated, and I ask counsel if he has produced the original letter on behalf of opposer.

Mr. Hoge: I now hand you two original letters from Warren W. Dunnell to Safeway Stores, Incorporated and a copy of the reply dated June 29, 1944.

DQ-139 (By Mr. Westall): I now place before you what purports to be a letter, on the letterhead of the Sani-Gard Cover Company, dated June 19,

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)  
1944, directed to Safeway Stores, Inc., 1925 East  
Vernon Ave., Vernon, Calif.” and signed “Warren  
Dunnell”, and I ask the notary to mark said letter  
for identification as Dunnell Exhibit S, and ask  
you if that is one of the letters which you referred  
to as having been sent.       A. It is.

DQ-140 Is that a letter that you sent to the  
addressee mentioned in Dunnell Exhibit S for iden-  
tification?       A. It is.

Mr. Westall: We offer in evidence Dunnell Ex-  
hibit S for identification as Dunnell Exhibit S.

### DUNNELL EXHIBIT S

In the United States Patent Office  
Before the Examiner of Interferences

Opp. No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,

vs.

WARREN W. DUNNELL,  
Applicant.

Deposition of Warren W. Dunnell, Los Angeles,  
Calif., September 12, 1944. /s/ Ross Reynolds,  
Notary Public.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

Docket Division, U. S. Patent Office, Oct. 19, 1944.

[Letterhead Sani-Gard Cover Company]

June 19 1944

Safeway Stores Inc.,  
1925 East Vernon Ave.,  
Vernon, Calif.

Gentlemen:

We are manufacturers of sanitary paper toilet seat covers.

Before taking up your time with details of a sales proposition, we should like to inquire if you would consider our product as suitable for merchandising to the public in your stores?

Your ideas in this respect at your convenience will will be much appreciated.

Yours very truly,

/s/ WARREN DUNNELL.

The record should show that Dunnell Exhibit S in evidence is one of the letters that was produced on behalf of opposer in response to our notice to produce.

DQ-141 I now place before you a second letter, produced on behalf of the opposer in response to our notice to produce, on the letterhead of Sani-Gard Cover Company, and directed to Safeway Stores, Inc., 1925 East Vernon Avenue, Vernon, California, and signed "Warren Dunnell," and ask you if that is one of the letters to which you have

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

heretofore referred as having been mailed by you.

A. It is.

Mr. Westall: The notary will kindly mark the letter just referred to as Dunnell Exhibit T for identification.

DUNNELL EXHIBIT T

In the United States Patent Office  
Before the Examiner of Interferences

Opp. No. 23,281

SAFEWAY STORES, INCORPORATED,

Opposer,

vs.

WARREN W. DUNNELL,

Applicant.

Deposition of Warren W. Dunnell, Los Angeles,  
Calif., September 12, 1944. /s/ Ross Reynolds,  
Notary Public.

Docket Division, U. S. Patent Office, Oct. 19, 1944.

[Letterhead Sani-Gard Cover Company]

Safeway Stores Inc.,  
1925 East Vernon Ave.,  
Vernon, Calif.

Gentlemen:

A few days ago we wrote you asking if, in your opinion, our product of paper toilet seat covers would be suitable for merchandising to the public in your stores.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

I have been a customer of yours for some years, so I thought I might take the liberty of asking your advice in this respect.

A reply would be appreciated.

Yours very sincerely,

/s/ WARREN DUNNELL.

DQ-142 That is your signature appended to the letter, is it not, "Warren Dunnell," referring to Dunnell Exhibit T for identification?

A. It is.

Mr. Westall: We offer in evidence the letter Dunnell Exhibit T for identification as Dunnell Exhibit T.

DQ-143 I place before you what purports to be a letter on the letterhead of Safeway Stores, Inc., 1925 East Vernon Avenue, Los Angeles, California, dated June 29, 1944, and addressed to Sani-Gard Co., and signed "J. B. A. Brennan, Purchasing Department," and ask you if that is an original letter which you received through the mail from Safeway Stores, Incorporated, at or about the time of its date.

A. This is the original letter that I received from Safeway Stores on or about the date of June 29, 1944.

Mr. Westall: We offer the letter last identified by the witness in evidence as Dunnell Exhibit U.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DUNNELL EXHIBIT U

In the United States Patent Office  
Before the Examiner of Interferences

Opp. No. 23,281

SAFEWAY STORES, INCORPORATED,  
Opposer,

vs.

WARREN W. DUNNELL,  
Applicant.

Deposition of Warren W. Dunnell, Los Angeles,  
Calif., September 12, 1944. /s/ Ross Reynolds,  
Notary Public.

Docket Division, U. S. Patent Office, Oct. 19, 1944.

[Letterhead Safeway Stores]

Sani-Gard Co.,  
3101 Pasadena Ave.,  
Los Angeles, 31, Calif.

June 29, 1944

Gentlemen:

We thank you for your letter offering us paper toilet seat covers, and we regret to advise that up to the present time we have not approved of such an item for resale in our Stores.

Should our policy in this regard change at any



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

time in the future, we shall be happy to discuss the matter with you.

Yours very truly,

SAFEWAY STORES,  
INCORPORATED,  
/s/ J. B. A. BRENNAN,  
Purchasing Department.

I here give notice, under Patent Office Rule 154(e), to counsel for opposer, that I will use at the hearing of this opposition proceeding as a printed publication or official record of the Patent Office, as evidence on behalf of Applicant Dunnell herein, the file wrapper and contents, the specification, drawings and registration, of Trademark 329,627, by the Morton Manufacturing Company of Chicago, Illinois, registered November 5, 1935, of the trademark "Safe-Way" as applied to metal cabinets for paper toilet seat covers, a printed copy of a statement of which furnished by the Patent Office I here produce and ask the notary to mark for identification as Dunnell Exhibit V.

DQ-144 I place before you Dunnell Exhibit V for identification and ask you to state whether or not if you know the Morton Company of Chicago, Illinois, mentioned therein, is the same company to which you have heretofore referred as having furnished you Safe Way toilet seat covers and Safe Way cabinets?      A. It is the same.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DQ-145 Still referring to Dunnell Exhibit V for identification, please state if you know when and under what circumstances the Morton Manufacturing Company of Chicago, mentioned in said Exhibit V for identification, first applied the name "Safe Way" to metal cabinets for paper toilet seat covers.

A. They first applied it on paper toilet seat cover dispensing cabinets when I sent them my orders, the first order being No. 216, which cabinets were made and labeled with the name "Safe Way" at my direction.

DQ-146 In referring to Order No. 216, you are referring to Dunnell Exhibit F for two Safe Way seat cover cabinets (wall type), are you not?

A. That is correct.

DQ-147 And which you say were furnished to you? A. They were.

Mr. Westall: We offer Dunnell Exhibit V for identification in evidence as Dunnell Exhibit V, also relying upon the notice of reliance upon official records and publications of the Patent Office as heretofore stated.

DQ-148 I notice in Dunnell Exhibit V it is stated that the name "Safe-Way" is for metal cabinets for paper toilet seat covers. Please state if you know for whose toilet seat covers such cabinets were made.

A. They were made for my Safe Way paper toilet seat covers.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

DQ-149 Do you know John H. Mengler, the witness who just preceded you in giving his deposition in this proceeding? A. I do.

DQ-150 When and under what circumstances did you first become acquainted with the said John H. Mengler?

A. It was in December, 1933 when I approached the Whedon Paper Converting Corporation with respect to their manufacturing and converting Safe Way paper toilet seat covers for me.

DQ-151 You were present and heard the testimony of John H. Mengler, were you not?

A. I was.

DQ-152 Please state whether or not you agree with the statements given by John H. Mengler during the course of his examination in this proceeding.

A. I do.

DQ-153 Is John H. Mengler interested in any manner in your business of the sale of paper toilet seat covers under the trademark "Safe Way" or has he ever been so interested?

A. He is interested to the extent of having his small shop in connection with my factory and, in my absence from the factory, he takes care of certain details of my business.

DQ-154 Does he individually run his own shop?

A. He does.

DQ-155 Please state whether or not John H. Mengler has ever had an opportunity to observe the nature and extent of your business in the sale of

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

paper toilet seat covers labeled with the trademark "Safe Way," explaining your answer fully.

Mr. Hogue: I object to that on the ground it calls for a conclusion and on the further ground testimony has already been given by Mr. Mengler himself.

Mr. Westall: It is merely corroboration.

A. Having his shop in the same location with my factory, he has, of course, had the very best of opportunities to observe my manufacturing operations and my shipping operations and particularly with respect to handling certain parts of my business when I was not there, such as inquiries that came in, phone calls, shipments and so forth.

Mr. Westall: I here give notice to counsel for opposer, under Patent Office Rule 154(e), that I will use at the hearing of this opposition proceeding, as printed publications or official records of the Patent Office and as evidence on behalf of Applicant Dunnell herein, the specification, drawings and registration of each of the trademark applications and registrations which I now list. A copy of the statement of each of said registrations furnished by the Patent Office will also, for the sake of clarity, be offered in evidence.

These listed trademark statements are all offered in evidence as Dunnell Exhibits W-1 to W-16 inclusive, in the order of their listing.

Mr. Hoge: They are objected to on the ground they are irrelevant and immaterial.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

Mr. Westall: They are as follows:

Exhibit W-1, Trademark 346,868, registered June 8, 1937, to the Uecker Equipment Company;

Exhibit W-2, Trademark 403,449, registered September 28, 1943, to Southern Independent Oil and Refining Company;

Exhibit W-3, Trademark 196,097, registered March 10, 1925, to American Motor Body Corporation;

Exhibit W-4, Trademark 213,022, registered May 18, 1926, to Modern Office Devices, Inc., of New York;

Exhibit W-5, Trademark 261,352, registered September 17, 1929, to Herman Pintel, doing business as Arlington Products Co.;

Exhibit W-6, Trademark 262,413, registered October 8, 1929, to Elgin Rowland Parker, doing business as Merit Manufacturing Co., of Los Angeles, California;

Exhibit W-7, Trademark 268,138, registered March 11, 1930, to Frank J. Quigan, Inc.;

Exhibit W-8, Trademark, 271,445, registered June 3, 1930, to Safeway Sales Corporation, of Boston, Massachusetts;

Exhibit W-9, Trademark 285,750, registered August 4, 1931, to the Logan-Long Company;

Exhibit W-10, Trademark 287,569, registered September 29, 1931, to Dean Rubber Manufacturing Company;

Exhibit W-11, Trademark 306,075, registered



Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

September 5, 1933, by Alexander J. Forbes, doing business as Safeway Laboratories, Oakland, California;

Exhibit W-12, Trademark 324,981, registered June 4, 1935, by Clopay Corporation;

Exhibit W-13, Trademark 330,655, registered December 10, 1935, to Robert M. Culley, doing business as Safeway Tire Patch Manufacturing Company, South Gate, California;

Exhibit W-14, Trademark 333,604, registered March 31, 1936, to Rein A. Uecker, Inc.;

Exhibit W-15, Trademark 341,742, registered December 22, 1936, to Safeway Products Corporation, New York, N. Y., and

Exhibit W-16, Trademark 344,871, registered April 6, 1937, to Western Containers, Inc.

You may cross-examine.

Cross-Examination

By Mr. Hoge:

XQ-156 Mr. Dunnell, referring to Dunnell Exhibits W-1 to -16, inclusive, at the time you adopted the trademark "Safe Way" for your product, had you ever heard of any of these other concerns or their use of the name "Safe Way?"

A. No; I had not.

XQ-157 You had heard, however, or did know of a grocery business being conducted under the name of Safeway?

A. Not at that particular time in 1933, when I first adopted and used that name.



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

XQ-158 You didn't know at that time that there was a grocery company in Los Angeles operating under the name of Safeway or Safeway Stores?

A. I wouldn't know that there was; no.

XQ-159 You had never patronized any of those stores?

A. Oh, yes; I have. In recent years, I have bought many items of groceries and taken them home from Safeway Stores.

XQ-160 But you hadn't in 1933 or prior thereto?

A. I don't recall; no.

XQ-161 You may have done so?

A. I might have if there were such concerns in existence at that time, but I don't remember if there were in Los Angeles.

XQ-162 You can't say whether or not you had?

A. I would say that I don't recall of ever having done it; no.

XQ-163 Mr. Dunnell, you say you agree with the testimony of Mr. Mengler. Do you recall that he said that all the cartons were marked with the name "Safe Way"? A. Yes.

XQ-164 That is not correct, is it?

A. Yes; that is correct. We marked them with a rubber stamp, I believe, the very first cartons, which was more or less a very temporary proposition. Just when we were getting started, we marked them and packed them in that way.

XQ-165 Doesn't your tabulation show you were still selling at that time and for several years after

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

that, that is, 1933 and several years after that, paper covers under the name of "Sani-Gard"?

A. Yes.

XQ-166 Were those boxes marked "Safe Way" also or "Sani-Gard"?

A. I had better explain. That is a different type and style of seat cover and that was marked with the brand "Sani-Gard" because it was an entirely different article apart from the Safe Way toilet seat cover.

XQ-167 Wasn't it a toilet seat cover that was used to cover the toilet and flush down the drain afterwards? A. Oh, yes.

XQ-168 Just a different shape, is that right?

A. That is right; that is the idea.

XQ-169 And you were selling those toilet seat covers under the name of "Sani-Gard" as well as under the name "Safe Way"?

A. That is right. That was before I started selling Safe Way seat covers and was selling Sani-Gard seat covers.

XQ-170 And afterwards?

A. And afterwards for a short period.

XQ-171 Mr. Mengler also testified, I believe, that practically all sales were made to jobbers. I understand from you that you make a good many sales to consumers or, rather, to operators of rest-rooms who buy for purposes of consumption on the premises, is that correct?

A. My business to start with was done primarily

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

as a direct sale to consumers and by consumers I mean locations and concerns operating public rest-rooms, and was not a resale proposition through jobbers. That was done because there was not any particular interest in the item of seat covers at that time and it required a considerable amount of missionary effort and sales work to establish the item as a desired article of merchandise. However, within a comparatively short period of time, the business developed from being a very small local business in 1931 and 1932 to being an interstate business and that required a resale proposition through jobbers. So that I then started in increasing my volume of business by means of selling through jobbers such as Mr. Mengler referred to.

XQ-172 But you have continued to sell to consumers, I suppose?

A. I discontinued practically altogether selling to consumers direct.

XQ-173 You said that the Morton Manufacturing Company first used the name "Safe Way", which they registered with the Patent Office, on the dispensing cabinets of yours?

A. That I ordered; yes.

XQ-174 How do you know that?

A. Well, I had not heard of them or anyone else ever using the name of "Safe Way" on dispensing cabinets, and they had been selling me Sani-Gard seat covers. So I was familiar with their particular product and was absolutely certain

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

that they had not labeled cabinets with the name "Safe Way" before I ordered them and asked them to do my cabinets in that way.

XQ-175 Is that based on any statement from them or just an assumption of yours?

A. No; that is an assumption of mine.

XQ-176 I think you said you had been a customer of the Safeway Stores from time to time for a number of years, is that correct?

A. For the past few years I have bought items from them.

XQ-177 Can you say how many years?

A. Oh, I would say for the past three or four years.

XQ-178 Referring to these letters which you wrote to the A. & P., Safeway, Kress and Woolworth, which have been introduced, was that for the purpose of attempting to find a market for these seat covers in retail stores?

A. Yes. When the opposition proceeding was filed against my application for this trademark "Safe Way", I was advised about it, of course, by my attorney and I was rather surprised that any opposition should be encountered from a concern such as the Safeway grocery stores. This was because I had previously found that there was no prospect of my selling paper seat covers to concerns of that kind and the thought occurred to me that possibly I had been overlooking some prospects and that is was something that I had neglected, and so I wrote those letters mentioned.

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

XQ-179 Wasn't it primarily for the purpose of proving they were not interested in selling them?

A. Well, it occurred to me that possibly conditions had changed since I had previously tried to secure an outlet in that way and, if so, I wanted to know about it. But the letters that were received confirmed my supposition and belief that that was was not an item that was salable in stores of that kind.

XQ-180 Why did you stop selling your other types of seat covers under the names of "Sani-Gard" and "Vend-Gard"?

A. Well, primarily, the Safe Way seat cover proved to be a more satisfactory seat cover.

XQ-181 There was more demand for that particular one that was sold under that name, was there?

A. There wasn't any more demand except that I created it as a result of my sales efforts, and it was probably a better salable item and a more satisfactory product because of the difference in construction of the seat cover itself and dispensing cabinet.

XQ-182 You said it was probably a better product. Was there any other reason for your pushing that particular one?

A. Not any other particular reason.

XQ-183 Isn't it a fact that you find that seat covers under that name are easier to sell than seat covers under the other names?



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

A. No; I wouldn't say they are easier to sell. Any brand name is hard enough to sell from my experience.

XQ-184 Then, you don't consider the name particularly important in the sale of this product?

A. Well, I think that it is very important with respect to my product Safe Way paper toilet seat covers because I used that name for a long period of time, since 1933, and I established my business of merchandising paper seat covers under that name for all these years and throughout the United States.

XQ-185 But you have always used the name "Sani-Gard Cover Company" or "Sani-Gard Sales Company" in connection with it, haven't you?

A. That is right.

XQ-186 So that none of your customers think of it as a product of Safeway?

A. I have never heard that they ever thought of it as that at all; no.

XQ-187 But would you say it is possible, then, in view of the fact you have used that name so long?

A. No; I wouldn't think so.

XQ-188 Then, you don't think that name is particularly important?

A. Yes; I think it is very important from the point of view, as I have previously expressed, of my having built up a large business under that name. If I had adopted some other name and spent the time and years and effort I have in build-



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

ing it up under that name, then I would say that name also would be very important.

XQ-189 Are all these paper seat covers sold in cabinets? I mean are they dispensed in cabinets?

A. Yes; that is a general way of doing it. Sometimes they take a pad and maybe hang it on the wall. During the present emergency, we have found it difficult to buy steel cabinets, so we just take the pad and put it in the restroom without the cabinet.

XQ-190 In all of your labels and designations of name you show the name "Sani-Gard Cover Company" except in the wrappers on the paper pads, is that correct?

A. That is correct. And I will explain why that is done if you wish to have me do so.

XQ-191 Yes.

A. That band is put around 100 or the quantity of covers that are made up into a pad and that pad is inserted then into the steel dispensing cabinet and is not seen by the public or anyone else, and the name would merely require more printing on a narrow band there which hasn't much more room on it and it would serve no particular purpose.

XQ-192 But in these cases you just mentioned, where the packages of covers are put in the restroom without being in a cabinet, then there is no indication of the source or name of the product except the name "Safe Way". is that correct?

A. They don't do that with this particular type

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

because it would be very wasteful. It would have to be put up in some kind of a chip board envelope like some other brands of covers. In other words, the particular way in which this particular cover is made which is called "Safe Way" is there is nothing to hold the sheets together other than this band around the covers, which has a cardboard back and this band pasted onto that cardboard back. So that it would be a very wasteful proposition to have them used in that way and I doubt that our Safe Way covers have been used in that way. They never have to my knowledge.

XQ-193 Do you still make the Sani - Gard covers?      A. No, sir.

XQ-194 Didn't I understand you to say that in some places the covers are dispensed as is, without being put in a cabinet?

A. I have a cover which I call by the name "Pro Tex" and it is made up in an envelope so that it can be used in a restroom without a dispensing cabinet.

XQ-195 Is it true, then, that none of these seat covers which are wrapped with this binder Exhibit M are sold not in dispensers?

A. No; they would not be used that way, I am sure. It would be a very wasteful means of use and a concern would immediately stop buying them if they found people using them in that way, I am sure, without a dispenser.

XQ-196 Why is that?

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

A. Well, people are very careless in public restrooms. In my experience, I have found they are very likely to abuse privileges that are given them in respect to furnishing paper toilet seat covers.

XQ-197 Do you mean they will take out more than one at a time? Is that what you mean?

A. Yes; and women might use them in ways which would not be quite appropriate.

XQ-198 I understood in your testimony in chief that this wrapper Exhibit M was placed on all of the seat covers that you manufactured, is that right?

A. Only on the Safe Way paper toilet seat covers.

XQ-199 But you are, in addition, selling them under another brand?

A. I am selling another cover; yes.

XQ-200 Is that shown on your tabulation? May I see that list?

A. That wouldn't be shown on that list because it is something I have recently put on the market, since 1941.

XQ-201 How many of those do you sell?

A. Not very many.

XQ-202 You have no way of telling, have you, whether seat covers containing this wrapper Exhibit M are not sold without the use of dispensers or dispensing cabinets?

A. I have knowledge from the experience in my business that no one has ever used them in

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

that way that I know of, that is, without a dispensing cabinet.

XQ-203 Your testimony about seat covers being used without a dispensing cabinet did not refer to Safe Way seat covers, is that right?

A. That is correct. I might explain that since the war came upon us we have had difficulty in getting steel to make dispensing cabinets. So that is the reason I have made up this so-called Pro Tex paper toilet seat cover, which is in a chip board envelope which can be put in a restroom and used without a paper dispensing cabinet.

XQ-204 And does that have any arrangement to keep them from getting more than one at a time?

A. Yes. It is a much different type.

XQ-205 How is it sold? Is it in an envelope?

A. I should say yes; it is in a cardboard type of envelope.

XQ-206 Is it arranged so that only one comes out at a time? A. That is right.

XQ-207 Can you furnish us with one of those envelopes? A. Sure.

XQ-208 What is the extent of your advertising, Mr. Dunnell? By that I mean have you ever done any general advertising such as in newspapers and magazines of general circulation?

A. No, I have never advertised in that way.

XQ-209 Your advertising has just been to the trade, so to speak?

A. That is correct. We have never catered to

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

the general public with our product because it is not a product that they buy at a general merchandise store. They go to a grocery store or some other type of a store to buy things which they take home and either eat or use. Our product is sold to locations that are furnishing these without any charge to their customers that use their public restrooms.

XQ-210 How did it happen that you didn't register this mark before you attempted to register it?

A. Well, I suppose it was a matter of neglect on my part.

XQ-211 Had you ever discussed that before you decided to make this registration or ever thought about it?

A. I never discussed it with Mr. Westall before this application was filed for this present registration.

XQ-212 Did you ever discuss it with anybody else? A. Not that I recollect.

XQ-213 Did it occur to you that there might be an opposition? Is that the reason that you didn't attempt to register it before?

A. No; that wasn't the reason.

XQ-214 You sold for the first several years a paper seat cover under the name of "Sani-Gard", is that correct? A. That is correct; yes.

XQ-215 How many years was it, by the way?

A. About six years.

XQ-216 And did you find any trade resistance to that name? A. Not to the name.



## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

XQ-217 You had put in a good deal of effort in selling under that name, hadn't you, in the six years?

A. Yes; I certainly had as a source of supply for paper toilet seat covers.

XQ-218 Then, why did you change to the name "Safe Way"?

A. Because the Sani-Gard toilet seat cover had a dispensing cabinet, of course, and that dispensing cabinet I had distributed throughout many territories——

XQ-219 That was your business, was it?

A. That is right. I had a considerable volume of business built up on that particular cover with that Sani-Gard dispenser. And, when I found this Sani-Gard cover was not satisfactory in every respect and there were certain objections to it, I conceived the idea of this cover which we call now "Safe Way". The "Safe Way" cover was an entirely different cover as far as type and construction is concerned, particularly with respect to being suitable for use in a Sani-Gard cabinet. In other words, you couldn't use a Safe Way seat cover in a Sani-Gard cabinet because of its construction and the form in which it was made up. So it was perfectly natural that I should adopt some other trade name for this seat cover which I started making in 1933 and selling at that time because there would have been a great confusion in respect to ordering seat covers for my different customers at one time and



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

another. You couldn't call the new cover "Sani-Gard" because then they would be wanting seat covers for use in Safe Way cabinets and get the wrong kind of merchandise and vice versa.

XQ-220 Assuming that you did name it "Safe Way", you named it "Safe Way" so as to avoid confusion, is that right?

A. Yes; I had to adopt a different name.

XQ-221 You did eventually give up your other model, the Sani-Gard model, didn't you?

A. Yes, because, as I said, it hadn't proven satisfactory.

XQ-222 Didn't it occur to you to just change the model and still sell it under the same name?

A. No; I had too many dispensing cabinets out under the name "Sani-Gard". I had continued selling those over a period of years.

XQ-223 You say you gave a great deal of thought to the adoption of a name that would be acceptable to customers. Just what factors did you take into consideration in selecting the name "Safe Way"?

A. Well, the factors that I took into consideration would be a name that was——

XQ-224 I mean just what they were at the time, so far as you recall.

A. Just what is it that you want to know?

XQ-225 I want to know what factors you took into consideration. I mean your answer started out with "would be" and I wanted to make it clear.

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

It isn't what you think now but what you thought then.

A. A name that would be simple and easily remembered. I can't think of anything else particularly that I would take into consideration.

XQ-226 At that time hadn't you seen advertising by Safeway in the local papers?

A. As I said before, I don't recall that I knew of the existence of any Safeway Stores in Los Angeles at the time I first started in selling and merchandising Safe Way covers.

XQ-227 If I tell you that they started selling in Los Angeles under that name in 1926, would that refresh your recollection any?

A. Not particularly although I wouldn't, of course, deny that they did have stores here at that time or sold under that name.

XQ-228 Do you remember the Sam Selig grocery stores?

A. I think that was before I ever came to California.

XQ-229 When did you first come here?

A. In 1928, I believe.

XQ-230 Yes; that would be before your time. But you can't say it is not possible that you may have patronized a Safeway Store or seen Safeway advertising before you adopted its name?

A. I would say at that period in my life I was not patronizing grocery stores at all; that I probably had my wife do all marketing. But my present

Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

marital relationship is such that I have to do some of the marketing myself.

XQ-231 You were married and living at home at that time? A. That is right.

XQ-232 Mr. Dunnell, I will show you a number of clippings from local newspapers for the past year or so and ask you to look at a few of those and say whether you have ever seen advertising like that by Safeway.

Mr. Westall: The question is objected to, first, because it is not proper cross-examination; second, because it is an apparent effort on the part of the opposer to insert new specimens not mentioned in the notice of opposition and of which copies were not furnished to applicant after the filing of the notice of opposition, and which we have not had a chance to examine to the present time, and the receipt in evidence, under the guise of cross-examination or otherwise, is contrary to the ruling of the Examiner of Interferences in the office action of May 20, 1944, in which, after applicant had insisted that the service was not completed in that all specimens of advertising had not been furnished and there was a confusion as to what specimens of advertising or labels would be used, the examiner in said last-mentioned office action, of May 20, 1944, stated that the opposer would be hereinafter correspondingly restricted in its proofs and the submission of such specimens is deemed to constitute a sufficient compliance with the requirements of Trademark Rule 56 relative thereto.

## Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

We remind that at the time of our letter to the Patent Office, calling attention, among other things, to the fact that the notice of opposition was not complete until we received the specimens referred to therein, we also consented to filing by opposer of an amended and substituted notice of opposition to incorporate any new averments or any new specimens of advertising upon which opposer would rely, and which offer was not accepted, the restriction to those already served and now on file being thereafter made as stated; third, we also object to any consideration of the very numerous newspaper clippings now shown to the witness for the reason that many of them are undated; fourth, objection is also made that apparently opposer is now, under the guise of cross-examination, attempting to put in evidence in chief notwithstanding the restriction mentioned.

And we remind that the depositions on behalf of opposer were closed immediately after the taking of the deposition of the only witness, Milton L. Selby, on August 8, 1942, with the statement by the attorney Mr. Wilde, "Depositions on behalf of opposer have been completed and its case is closed."

Mr. Hoge: I would like to say that these documents are offered in connection with the cross-examination. And, also, I hereby give notice that they will be offered as printed matter pursuant to Rule 154 (e) of the Rules of Practice of the United States Patent Office.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

Will you read the question, please?

(Question read by notary.)

A. In reading the newspapers, I undoubtedly have casually observed such advertisements of Safeway Stores.

Mr. Hoge: I will offer those in evidence as Opposer's Exhibits 42-1 to 42-49 inclusive.

Mr. Westall: They are objected to on the ground they are not proper cross-examination; on the ground, also, that it is an attempt to disregard the restriction of the examiner of interferences of May 20, 1944, and to insinuate into the record evidence in chief; also, on the ground that it is out of order now to consider any such evidence because the depositions on behalf of the opposer were closed over a month ago; and, furthermore, that the newspaper clippings are, many of them, undated and no foundation has been laid to support their introduction in evidence; and, furthermore, they are much too late, as those that are dated are of dates apparently late in 1943 and most of them in 1944, long after the filing of the application for registration or the filing of the notice of opposition. And upon such grounds they also are totally irrelevant and immaterial to any issue in this case.

XQ-233 (By Mr. Hoge): At any rate, Mr. Dunnell, you have realized for some time, have you not, that Safeway has been making an extensive advertising campaign with the use of the name



Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

"Safeway" appearing in its advertisements?

A. No; I wouldn't say that I realized that; no.

XQ-234 You do now realize it, don't you?

Mr. Westall: That is objected to on the ground that counsel is assuming that he has proved the advertisements and expects that the witness will accept such assumption which has not been proven and is not in evidence.

A. If these advertisements just shown to me are recent advertisements, as it cannot be determined, of course, from those which have no dates, I should say, of course, that they are doing a fair amount of advertising.

XQ-235 (By Mr. Hoge): Did you read the deposition of Mr. Selby, Mr. Dunnell?

A. No; I did not read it.

XQ-236 He states in that deposition. in answer to Question No. 23, that the company, referring, of course, to Safeway Stores, Incorporated, expended, in 1943, for advertising of all kinds, the total amount of \$3,600,000 odd. Assuming that to be true, it is apparent to you, is it not, that you are reaping a considerable benefit from something that the Safeway Stores, Incorporated, is doing?

Mr. Westall: That is objected to as not proper cross-examination and upon each of the grounds heretofore stated in the objections to the receipt in evidence of the voluminous newspaper clippings referred to.

A. I cannot see that I am now or ever have re-



Plaintiff's Exhibit No. 3—(Continued)

(Deposition of Warren W. Dunnell.)

ceived any benefit from any of the advertising done by Safeway Stores, Incorporated.

XQ-237 (By Mr. Hoge): You don't think that the public's familiarity with that name and acceptance of that name does you any good?

A. I don't think they connect it with paper toilet seat covers in any way.

XQ-238 Don't you think, as a matter of fact, at least to the average housewife, the name "Safeway" suggests a grocery store?

A. Not any more than it would possibly something else. I don't know how the American housewife's mind works.

XQ-239 So far as you personally are concerned, aside from your own use of it, you have never heard of any other use of it except by a grocery store, have you? Didn't you so testify a while ago or am I correct?

A. I testified, as I recollect, that I was not familiar with any of the particular exhibits which were——

XQ-240 Which show the registration of the name "Safeway"?

A. Which showed the registration of the name "Safeway"; that is right.

XQ-241 And you were not familiar with them until just recently, when counsel called your attention to them, is that correct?

A. That is correct; yes, sir.

XQ-242 Are you familiar with any other use of that name?

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

A. Since the institution of this opposition proceeding, my attorney has brought to my attention a number of other products that are called by the name "Safe Way".

XQ-243 But before that you knew only your own product and the grocery business use, didn't you?

A. I may during the past years, which is very difficult for me to remember all about, have come across the name, "Safe Way" for some product of one kind or another and I may have had it brought to my attention but I don't recall any specific instances at this time.

XQ-244 But you do recall the use of the name in connection with grocery stores?

A. Well, I do know that there are Safeway grocery stores located at the present time in Los Angeles.

XQ-245 And you have been familiar with that fact for a number of years?

A. For the last three or four years.

XQ-246 And possibly before?

A. I wouldn't say possibly.

XQ-247 You wouldn't say probably and you wouldn't say possibly, either?

A. It might be possible but I would have to draw upon my imagination considerably, I imagine, to figure out just exactly when it was that I first knew about a Safeway Store in Los Angeles.

Plaintiff's Exhibit No. 3—(Continued)  
(Deposition of Warren W. Dunnell.)

XQ-248 You just don't recall when that was, is that correct? A. That is correct.

Mr. Hoge: That is all.

Mr. Westall: No redirect examination. I now, in order to avoid the possibility of overlooking the introduction of some exhibit which has been marked for identification, re-offer each of said exhibits in evidence that were referred to in this witness' testimony as exhibits bearing the letter or number by which they were identified.

Mr. Hoge: I make the same objection as was made to any exhibit at the time.

Mr. Westall: The testimony on behalf of the applicant Dunnell is closed.

/s/ WARREN W. DUNNELL.

State of California,  
County of Los Angeles—ss.

I, Ross Reynolds, a notary public within and for the County of Los Angeles and State of California, do hereby certify that the foregoing depositions of John H. Mengler and Warren W. Dunnell were taken on behalf of the Applicant, in pursuance of the notice hereto annexed, before me, at Room 225 Wilson Building, 132 West First Street, in the City of Los Angeles, in said County, on the 12th day of September, 1944; that said witnesses were by me each duly sworn before the commencement of the testimony of such witnesses, respectively; that with the written consent of all parties present, as at the

## Plaintiff's Exhibit No. 3—(Continued)

beginning of said depositions indicated (the stipulation showing said consent being attached hereto), the said depositions of each of said witnesses was taken down stenographically by me and afterwards transcribed or typed by Mildred Diggins, under my directions and in my presence; that the opposing party, Safeway Stores, Incorporated, was represented by counsel, as noted below the caption of said depositions, during the taking of said testimony; that said testimony was taken at the place aforesaid, and was commenced at the hour of 10:00 o'clock a.m. on the 12th day of September, 1944, and was continued to the hour of 12:00 o'clock noon of said day, at which time an adjournment was taken to the hour of 2:00 o'clock p.m. of said day; that said testimony was resumed, pursuant to the said adjournment, at the hour of 2:00 o'clock p.m. of said day and was continued to the hour of 4:30 o'clock p.m. and was concluded at that hour on said date; that the depositions were read by each of said witnesses before the witnesses signed the same, and that they signed the same in my presence.

I further certify that I am not connected by blood or marriage with either of said parties, nor interested, directly or indirectly, in the matter in controversy.

I further certify that the exhibits herewith enclosed were marked by me as is more particularly set forth in the index hereof and were offered in evidence by the respective counsel as in more particularly hereinbefore shown.

## Plaintiff's Exhibit No. 3—(Continued)

In testimony whereof, I have hereunto set my hand and affixed my seal of office at Los Angeles, in said County, this 11th day of October, 1944.

[Seal]     /s/ ROSS REYNOLDS,  
Notary Public in and for the County of Los Angeles, State of California.

[Endorsed]: Filed March 12, 1947.

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[Endorsed]: No. 11806. United States Circuit Court of Appeals for the Ninth Circuit. Safeway Stores, Inc., a corporation, Appellant, vs. Warren W. Dunnell, Appellee. Transcript of Record. Upon Appeal from the District Court of the United States for the Northern District of California, Southern Division.

Filed December 2, 1947.

      /s/ PAUL P. O'BRIEN,  
Clerk of the United States Circuit Court of Appeals for the Ninth Circuit.

United States Circuit Court of Appeals  
for the Ninth Circuit

No. 11806

SAFEWAY STORES, INCORPORATED,  
a corporation,

Appellant,

vs.

WARREN W. DUNNELL,

Appellee.

STATEMENT OF POINTS ON WHICH APPELLANT INTENDS TO RELY ON APPEAL, AND DESIGNATION OF THE PARTS OF THE RECORD WHICH APPELLANT THINKS NECESSARY FOR THE CONSIDERATION THEREOF

To the United States Circuit Court of Appeals for the Ninth Circuit, and to the Clerk of Said Court:

Now comes appellant in the above-entitled and numbered case and pursuant to subdivision 6 of Rule 19 of the Rules of the above-entitled Court files with the Clerk of said Court the following statement of the points upon which appellant intends to rely on the appeal, and designates the following designated parts of the record which appellant thinks necessary for the consideration thereof.

Statement of Points to Be Relied Upon

1. There was no evidence, and in any case no sufficient evidence, to overcome the findings and



decision of the Examiner of Interferences of the Patent Office and the findings and decision of the First Assistant Commissioner of the Patent Office that appellee's use of the name "Safe Way" is likely to cause confusion and mistake and to deceive purchasers, and that registration thereof is prohibited by the Federal Trade Mark Act. Both the Examiner and the Assistant Commissioner found and decided (1) that the name Safeway designates appellant in the minds of the public, (2) that the goods dealt in by appellant and appellee are of a similar nature and of the same descriptive properties, and (3) confusion of persons and reputations are reasonably likely to result from appellee's registration and use of the name Safeway. No evidence was introduced at the trial before the District Court in any way tending to overcome these determinations, and, in any case, there was no evidence there introduced which in character and amount carried thorough conviction that the Patent Office findings and decisions were erroneous. Under these circumstances, the Patent Office decisions are controlling. The District Court, in complete disregard of the doctrine of administrative finality and of the decisions in the Patent Office substituted its judgment for that of the administrative tribunal.

2. Appellee's use of the name "Safe Way" is likely to cause confusion and mistake and to deceive purchasers and others; and registration thereof is prohibited by the Federal Trade Mark Act. The name "Safeway" designates appellant, "Safeway Stores, Incorporated," in the minds of

the public. The goods dealt in by appellee, to wit, paper toilet seat covers, are of a similar nature and of the same descriptive properties as the paper products, including toilet tissue, sanitary napkins, facial tissue, paper cups, paper towels and paper napkins dealt in by appellant. Confusion of persons and reputations is reasonably likely. The words "Stores" and "Incorporated" in appellant's name are nondescript, and appellant's name is "Safeway" within the meaning of the Federal Trade Mark Act and under the principles of law of unfair competition.

3. Appellant is the prior user of the name "Safe-way."

4. Appellee's use of the name "Safe Way" constitutes unfair competition to appellant; and appellee should be enjoined from using it.

5. The court was without jurisdiction to adjudge and direct that the Commissioner of Patents register the name "Safe Way."

6. Registration of the name "Safe Way" is barred by appellee's laches.

7. Appellee has failed to establish his prior use of the name "Safe Way" even for toilet seat covers or his ownership of the claim upon which his suit is based.

8. That appellant will be damaged by appellee's registration of the name "Safe Way."

#### Parts of Record Deemed Necessary

Appellant thinks that it is necessary for the consideration of this appeal that the entire record as

certified to the above-entitled Court be considered by the above-entitled Court and designates for printing the entire record, except as otherwise provided by order of the above-entitled Court dated December 4, 1947.

Dated: December 4, 1947.

/s/ MITCHELL T. NEFF,  
/s/ WILLARD S. JOHNSTON,  
ORRICK, DAHLQUIST, NEFF,  
BROWN & HERRINGTON,  
Attorneys for Appellant.

[Endorsed]: Filed Dec. 4, 1947.

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[Title of Circuit Court of Appeals and Cause.]

AFFIDAVIT OF WILLARD S. JOHNSTON

State of California,

City and County of San Francisco—ss.

Willard S. Johnston, being first duly sworn, deposes and says:

That he is one of the attorneys for the appellant in the above-entitled cause; that the facts and matters herein stated are better known to affiant than to said appellant and for that reason affiant makes this affidavit for and on behalf of appellant; that it is necessary that the Court consider the entire record for the proper consideration and disposition of this appeal; but that except for the record in the Patent Office (Exhibits 1, 2 and 3 in the District Court) none of the exhibits in the District Court should be printed and none of the exhibits in the

Patent Office (whether or not included in said Exhibits 1, 2 or 3) should be printed for the reasons that said exhibits are numerous and voluminous and the printing thereof would be inordinately expensive; that some of said exhibits are not in written or pictorial form but constitute physical objects which would be difficult and costly to reproduce, and that said exhibits are of a character and the issues are such that the Court should consider and inspect the exhibits in the form in which they now are; that on September 17, 1947 the District Court made its order that the exhibits be transmitted to the Clerk of this Court for use and inspection by this Court, and said exhibits have accordingly been so transmitted to said Clerk and are now in his custody.

Wherefore, affiant prays for an order of this Court ordering that the entire record be printed with the exception of said Exhibits 1, 2 and 3; that except for said Exhibits 1, 2 and 3 the exhibits be not printed or reproduced; and that the Court will consider the entire record, including all of the exhibits.

/s/ WILLARD S. JOHNSTON.

Subscribed and sworn to before me this 4th day of December, 1947.

[Seal]      /s/ LUCIE M. REINCKE,  
Notary Public in and for the City and County of  
San Francisco, State of California.

My Commission Expires November 19, 1950.

[Title of Circuit Court of Appeals and Cause.]

### ORDER

On reading and filing the affidavit of Willard S. Johnston herein, and good cause appearing therefor, It Is Hereby Ordered that none of those portions of the record constituting exhibits in the District Court except Exhibits 1, 2 and 3 in the District Court, and none of the exhibits marked as Patent Office exhibits (whether or not included in said Exhibits 1, 2 or 3) need be printed or otherwise reproduced, and that all exhibits included in the record on appeal will nevertheless be considered by the above-entitled Court on the appeal.

Dated: December 4, 1947.

/s/ FRANCIS A. GARRECHT,  
Judge.

[Endorsed]: Filed Dec. 4, 1947.







No. 11,806

IN THE

United States Circuit Court of Appeals

For the Ninth Circuit

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SAFEWAY STORES, INCORPORATED,  
a Corporation,

*Appellant,*

vs.

WARREN W. DUNNELL,

*Appellee.*

APPELLANT'S OPENING BRIEF.

---

MITCHELL T. NEFF,  
WILLARD S. JOHNSTON,  
ORRICK, DAHLQUIST, NEFF,  
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*Attorneys for Appellant.*

FILED

APR 2 - 1948

PAUL P. O'BRIEN,  
CLERK



## Subject Index

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	Page
Statement of jurisdiction .....	1
Statement of the case .....	2
Specification of errors .....	5
Summary of argument .....	8
Argument .....	10
The evidence .....	10
Appellant's business .....	10
Appellant's name and reputation .....	11
Appellee's business and use of the name "Safe Way" .....	13
Relationship of products and business.....	15
Appellee's bad faith .....	16
The law .....	17
1. The District Judge erred in disregarding the Patent Office findings and in overruling the Patent Office decisions .....	17
a. Effect to be given to findings and decisions in the Patent Office .....	17
b. There was substantial evidence before the District Judge to support the Patent Office decisions .....	23
(1) Secondary meaning of name "Safeway" .....	23
(2) Similarity of product .....	23
(3) Similarity of business .....	24
c. The circumstances emphasized by the District Judge do not dispel the factors supporting the Patent Office finding of likelihood of confusion .....	25
(1) Dissimilarity in method of distribution .....	25
(2) Descriptiveness of use of name.....	26
d. The evidence in the District Court was not substantially different from that in the Patent Office .....	27
2. The District Judge erred, independently of his failure to follow the Patent Office decisions, in	

	Page
decreeing registration of the name "Safe Way" as a trademark for appellee's toilet seat covers	28
a. There is likelihood of confusion within the meaning of the Trademark Act .....	29
b. The Lanham Act .....	32
c. It is significant that appellee's attempted appropriation is of a single word in appellant's name which word has, itself, come to mean appellant to the public .....	35
d. It is significant that the word "Safeway" is the only distinctive portion of appellant's corporate name, the remainder, i. e. "Stores" and "Incorporated" being non-descript and not distinctive .....	35
3. The District Judge erred in denying appellant injunctive relief against appellee's use of the name "Safe Way" .....	36
a. Application of law of unfair competition...	36
(1) The test is likelihood of confusion ....	37
(2) Competition is not the test .....	41
(3) There is the requisite relationship of product and business .....	41
(4) Appellant's advertising .....	43
(5) Fanciful character of appellant's name	43
(6) Difference in size of parties is immaterial .....	44
b. Weight to be given to findings of District Court .....	45
c. The authorities show that the dissimilarities emphasized by the District Judge do not dispel the likelihood of confusion .....	46
(1) Method of distribution .....	46
(2) Distribution at wholesale .....	47
(3) Element of gratuity .....	48
(4) Descriptiveness of appellee's use of name .....	48
Conclusion .....	48
Appendix .....	i

## Table of Authorities Cited

Cases	Pages
Academy of Motion Picture Arts & Sciences v. Benson, 15 C.	
(2d) 685 (1940), 104 P. (2d) 650.....	39, 41, 42, 47
American Steel Foundries v. Robertson, 262 U. S. 209,	
67 L. Ed. 953, 43 S. Ct. 541 (1923).....	2, 18, 20
American Steel Foundries v. Robertson, 269 U. S. 372, 70	
L. Ed. 317, 46 S. Ct. 160 (1926) .....	29, 40
Armour & Co. v. Master Tire & Rubber Co., 34 F. (2d)	
201, S. D. Ohio (1925) .....	40
Asbestone Co. v. Philip Carey Manufacturing Co., 41 App.	
D. C. 507 .....	35
Bamberger v. Orloff, 44 F. Supp. 904, S.D.N.Y. (1942)....	40
Beechnut Cereal Co. v. Beech-Nut Packing Co., 273 F. 367,	
App. D. C. (1921) .....	30, 32, 35
British-American Tobacco Company, Ltd. v. British-Ameri-	
can Cigar Stores Co., 211 F. 933, C.C.A. 2 (1914).....	39, 47
Brooks Bros. v. Brooks Clothing of California, Ltd., 60	
F. Supp. 442, 451, S. D. Cal. (1945).....	41
Cardillo v. Liberty Mutual Ins. Co., 330 U. S. 469, 67 S.	
Ct. 801, 806-807, 91 L. Ed. 743, 748-749 (1947).....	22
Century Distilling Co. v. Continental Distilling Co., 106 F.	
(2d) 486, 489, C.C.A. 3 (1939).....	18
Coca-Cola v. Brown & Allen, 274 F. 481, D. C. (1921).....	39, 47
Del Monte Special Food Co. v. California Packing Corp.,	
34 F. (2d) 774, C.C.A. 9 (1929).....	41
Dobson v. Commissioner, 320 U. S. 489, 498-499, 64 S. Ct.	
239, 245, 88 L. Ed. 248, 254 (1943).....	21, 22
Dunhill of London v. Dunhill Shirt Shop, 3 F. Supp. 487,	
S.D.N.Y. (1929) .....	39
Duro Pump & Mfg. Co. v. California Cedar Products Co.,	
11 F. (2d) 205, App. D. C. (1926).....	30, 31, 35
Empire Crafts Corporation v. National Silver Co., 55 F.	
Supp. 1020 (1945) .....	21
Ex parte The American Thermos Bottle Company, 42 U.S.	
P.Q. 326 .....	36
Feldman v. Amos and Andy, 68 F. (2d) 746, C.C.P.A.	
(1934) .....	30, 32



	Pages
Fishel & Sons, Inc. v. Distinctive Jewelry Co., 188 N.Y.S. 633, 196 App. Div. 779 (1921) .....	39
Florence Mfg. Co. v. J. C. Dowd & Co., C.C.A. 2 (1910), 178 F. 73, 75 .....	26
Folmer Graflex Corp. v. Graphic Photo Service, 35 F. Supp. 963, D. C. Mass. (1940) .....	40, 47
Gray v. Powell, 314 U. S. 402, 412, 62 S. Ct. 326, 332, 86 L. Ed. 301 (1941) .....	22
Great Atlantic & Pacific Tea Co. v. A. & P. Cleaners & Dyers, Inc., 10 F. Supp. 450, W. D. Pa. (1934).....	38, 46
Great Atlantic & Pacific Tea Co. v. A. & P. Radio Stores, Inc., 20 F. Supp. 703, E. D. Pa. (1937).....	38
Hanson v. Triangle Publications, 163 F. (2d) 74 .....	39, 42
Helvering v. Clifford, 309 U. S. 311, 336, 60 S. Ct. 554, 557, 84 L. Ed. 788 (1940) .....	22
Holly Molding Devices v. Esquire, Inc., 148 F. (2d) 355, C.C.P.A. (1945) .....	30, 31, 35
Horlick's Malted Milk Corp. v. Horluck's, Inc., 59 F. (2d) 13, C.C.A. 9 (1932) .....	39, 41, 47
Jackman v. Mau, 78 C. A. (2d) 234 (1947), 177 P. (2d) 599 .....	39, 47
Kislyn Corporation v. Eastman Kodak Co., 43 F. Supp. 552 (1942) .....	21
Kroll Bros. Co. v. Rolls-Royce, 126 F. (2d) 495, C.C.P.A. (1942) .....	30, 32
Law v. Christ, 41 C. A. (2d) 862 (1940), 107 P. (2d) 953..	47
Loughran v. Quaker City Chocolate & Confectionery Co., 296 F. 822, C.C.A. 3 (1924) .....	18
Mississippi Valley Barge Line Co. v. United States, 292 U. S. 282, 286, 54 S. Ct. 692, 693, 78 L. Ed. 1260 (1934).....	22
Morgan v. Daniels, 153 U. S. 120, 14 S. Ct. 772, 38 L. Ed. 657 (1894) .....	18, 19, 25
Philadelphia Storage Battery Co. v. Mindlin (1937), 163 Misc. 52, 296 N.Y.S. 176, 181-182.....	44
Phillips v. The Governor & Co. of Adventurers of England Trading into Hudson's Bay, 79 F. (2d) 971, C.C.A. 9 (1935) .....	40, 41

# TABLE OF AUTHORITIES CITED

v  
Pages

Radio Corporation of America v. Rayon Corp. of America, 139 F. (2d) 833, C.C.P.A. (1943).....	30, 35
Reconstruction Finance Corp. v. Bankers Trust Co., 318 U. S. 163, 63 S. Ct. 515, 518, 87 L. Ed. 680 (1943).....	22
Riggs Optical Co. v. Riggs, 132 Neb. 26, 270 N. W. 667 (1937) .....	39, 47
Rochester Telephone Corp. v. U. S., 307 U. S. 125, 139, 83 L. Ed. 1147, 1157-8, 59 S. Ct. 754 (1939).....	22
Safeway Stores, Incorporated v. Safeway Opticians, Inc., 68 U.S.P.Q. 332, Pat. Comm. (1946).....	30, 32, 42
Socony-Vacuum Oil Co. v. Lafariere, 48 N.Y.S. (2d) 421 (1944) .....	46
Soft-Lite Lens Co. v. Ritholz, 301 Ill. App. 100, 21 N. E. (2d) 835 .....	39, 47
Solventol Chemical Products v. Langfield, 41 F. Supp. 877, E. D. Mich (1941) .....	18
Stork Restaurant v. N. Sahati, et al., C.C.A. 9 (1948), 2/18/48, 165 F. (2d) .....	25, 26, 36, 43, 44, 46, 50
Swayne & Hoyt v. United States, 300 U. S. 297, 304, 57 S. Ct. 478, 481, 81 L. Ed. 659 (1937).....	22
The Fyr-Fyter Co. v. William L. Barrell Co., 475 O. G. 688, 32 U.S.P.Q. 260 .....	36
Tiffany & Co. v. Tiffany Productions, 264 N.Y.S. 459, 147 Misc. 679 (1932), aff'd 260 N.Y.S. 821, 237 App. Div. 801 (1932), aff'd 188 N. E. 30, 262 N. Y. 482 (1933)....	39, 46
Time, Inc. v. Barshay, 27 F. Supp. 870, S.D.N.Y. ....	39
Time v. Viobin, 40 F. Supp. 249, E. D. Ill. (1941).....	40
United Drug Co. v. Reetanus, 248 U. S. 90, 97-98, 39 S. Ct. 48, 63 L. Ed. 141 (1918) .....	45
United States v. Louisville & N. R. Co., 235 U. S. 314, 320, 35 S. Ct. 113-114, 59 L. Ed. 245 (1914).....	22
U. S. ex rel. The Baldwin Co. v. Robertson, 265 U. S. 168, 68 L. Ed. 962, 44 S. Ct. 508 (1924).....	2
Vogue Co. v. Thompson-Hudson, 300 F. 509, C.C.A. 6 (1924), rehearing den. 12 F. (2d) 991 (1926), cert. den. 273 U. S. 701, 71 L. Ed. 850, 47 S. Ct. 98 (1926).....	39, 42
Wall v. Rolls Royce of America, 4 F. (2d) 333, 334, C.C.A. 3 (1925) .....	39
Walter v. Ashton, L.R. (1902), 2 Ch. 282 .....	40

	Pages
White Cap v. Allied Stores Corporation, 41 U.S.P.Q. 554	36
Wilmington Trust Co. v. Helvering, 316 U. S. 164, 168, 62 S. Ct. 984, 986, 86 L. Ed. 1352 (1942).....	23
Yale Electric Corporation v. Robertson, 26 F. (2d) 972, 973, C.C.A. 2 (1928) .....	18, 20, 30, 32, 38, 40

### Statutes

Federal Rules of Civil Procedure, Rule 13(a) (28 U.S.C., sec. 723) .....	2
Federal Trademark Act :	
Section 85 .....	3
R. S., sec. 4915 (35 U.S.C., sec. 63) .....	2
15 U.S.C., sec. 81 et seq. ....	1, 2
15 U.S.C., sec. 85 .....	29
15 U.S.C., sec. 89 .....	1
15 U.S.C., sec. 1051 et seq. ....	32
15 U.S.C., sec. 1127 .....	26
28 U.S.C., sec. 230 .....	2
35 U.S.C., sec. 63 .....	2, 3
Judicial Code, sec. 128 (28 U.S.C., sec. 225).....	2
Lanham Act (15 U.S.C., sec. 1052(d)) .....	33

### Texts

2 Callman, Unfair Competition and Trademarks, p. 804....	26
2 Callman, Unfair Competition and Trademarks, 1947 Supp., p. 50 .....	34

No. 11,806

IN THE

# United States Circuit Court of Appeals

For the Ninth Circuit

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SAFEWAY STORES, INCORPORATED,  
a Corporation,

*Appellant,*

vs.

WARREN W. DUNNELL,

*Appellee.*

## APPELLANT'S OPENING BRIEF.

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### STATEMENT OF JURISDICTION.

The jurisdiction of the trial Court of the appellee's complaint in this action to compel the Patent Commissioner to register a trademark after denial by him of appellee's application for registration thereof, was founded upon the Federal Trademark Act, 15 U.S.C. § 81 et seq. (Tr. 2-10). ~~Section~~ 15 U.S.C., § 89, provides that "if an applicant for registration of a trade mark . . . is dissatisfied with the decision of the Commissioner of Patents . . . he may appeal to the United States Court of Customs and Patent Appeals, on complying with the conditions required in case of an appeal from the decision of the

Commissioner by an applicant for patent . . . , and the same rules of practice and procedure shall govern in every stage of such proceedings as far as the same may be applicable." R.S. § 4915 (35 U.S.C., § 63, specifically applicable to patent appeals) provides that "whenever a patent on application is denied, the applicant, unless appeal has been taken to the United States Court of Customs and Patent Appeals, . . . may have remedy by a bill in equity."<sup>1</sup>

The jurisdiction of the trial Court of the counter-claim (Tr. 18-24) was founded upon Rule 13(a), Federal Rules of Civil Procedure and 28 U.S.C., Sec. 723, pursuant to which they were adopted.

The jurisdiction of this Court on appeal arises from Section 128 of the Judicial Code, 28 U.S.C., Sec. 225, which grants jurisdiction to review "final decisions" in the district Courts. The judgment appealed from (Tr. 49-50) was made and entered June 18, 1947. The notice of appeal (Tr. 50-51) was filed with the Clerk of the District Court on September 15, 1947, which was within the time allowed by 28 U.S.C., Sec. 230.

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### STATEMENT OF THE CASE.

In 1942 appellee, Warren W. Dunnell, applied to the Patent Commissioner under the Federal Trade-mark Act (15 U.S.C., § 81, et seq.) for registration of

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<sup>1</sup>It has been held that by reason of 15 U.S.C. § 89 this remedy by bill in equity is also applicable to trademark proceedings. *American Steel Foundries v. Robertson*, 262 U. S. 209, 67 L. Ed. 953, 43 S. Ct. 541; *U. S. ex rel. Baldwin Co. v. Robertson*, 265 U. S. 168, 68 L. Ed. 962, 44 S. Ct. 508.



the name "SAFE WAY" as a trademark for paper toilet seat covers (Tr. 188). Appellant, Safeway Stores, Incorporated, opposed the application (Tr. 193) and, after the taking of evidence, both the Examiner and, on appeal, the Assistant Commissioner (69 U.S.P.Q. 204, 36 T.M. Rep. 140, 169 M-S 13) sustained appellant's opposition.<sup>2</sup> Their decisions were grounded on Section 85 of the Act, and cases construing it, prohibiting registration of a trademark so resembling another's name or mark as to be likely to cause public confusion or mistake. They found that the name "Safeway" designates appellant, Safeway Stores, Incorporated, in the mind of the public; that appellee Dunnell's toilet seat covers are similar to toilet tissue, paper towels, sanitary napkins, paper cups and other products dealt in in large quantities by appellant and that, therefore, there was a likelihood of confusion.

Thereafter, in 1946, appellee Dunnell brought this suit under 35 U.S.C., § 63 in the District Court for the Northern District of California, Southern Division, for a decree requiring the Patent Commissioner to register the name "Safe Way" as a trademark for appellee's paper toilet seat covers (Tr. 2). Appellant, Safeway Stores, Incorporated, answered, denying appellee's right to registration of the distinguishing part of appellant's name as a trademark for toilet seat covers, and by way of counterclaim appellant sought to enjoin appellee from infringing upon ap-

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<sup>2</sup>The opinions of the Examiner and of the Assistant Commissioner are set forth in the appendix to this brief.



pellant's right in its trade-name "Safeway" by using the name in connection with appellee's toilet seat covers (Tr. 10). After the trial in the District Court, in which the main evidence consisted of the Patent Office record, the Court (Judge Goodman) filed an opinion deciding in favor of appellee Dunell on his complaint and against appellant Safeway Stores, Incorporated (Tr. 35) upon its counterclaim. Conceding that the name "Safeway" means to the public appellant Safeway Stores, Incorporated, he, nevertheless, decided, in diametric opposition to the decisions in the Patent Office, that there was no relationship between appellant's products (paper toilet tissue, paper sanitary napkins, paper towels, paper cups, paper napkins, and numerous other grocery and household products) and appellee's product (paper toilet seat covers) (Tr. 35-38); and that there was no likelihood of confusion. Findings of Fact and Conclusions of Law (Tr. 39-49) and Judgment (Tr. 49-50) were entered accordingly.

The fundamental questions involved on the appeal are whether the trial Court erred (1) in disregarding and overruling the decisions in the Patent Office denying registration of the name "Safe Way" as a trademark for paper toilet seat covers, and (2) in denying injunctive relief to appellant on its counterclaim.

**SPECIFICATION OF ERRORS.**

1. The Court erred in failing to find in accordance with the findings and decisions in the Patent Office.

2. The Court erred in finding that appellee's toilet seat covers "are not sold at all" (Tr. 41).

3. The Court erred in finding that appellee's toilet seat covers "are not of the same descriptive properties" as the "paper products as toilet tissue and paper towels" of appellant (Tr. 42).

4. The Court erred in finding that "no one ever confused the source of manufacture, distribution or sponsorship of plaintiff [appellee] Dunnell's said product (or any other seat cover whatsoever) as being by defendant [appellant] in this action" (Tr. 43).

5. The Court erred in finding that "there is no evidence that plaintiff [appellee] ever traded on any reputation of defendant [appellant]" and that appellant always marked his "products" "with the source of manufacture, 'Sani-Gard . . . Company'" (Tr. 44).

6. The Court erred in finding that "plaintiff's [appellee's] reputation in the sale of toilet seat covers under said trademark and under his own fictitious name, 'Sani-Gard . . . Company' . . . is conclusively proven by sales aggregating 172,725,000 toilet seat covers" (Tr. 44).

7. The Court erred in finding that "there is no evidence . . . to support any allegation or inference of damage to defendant [appellant], of unfair competi-

tion by plaintiff [appellee] with any activities of defendant [appellant];” and in finding that “the evidence shows conclusively that defendant [appellant] has not been damaged by any use by plaintiff [appellee] of his said trademark as so applied and cannot in the future be damaged by granting the prayer of the complaint . . .” (Tr. 45).

8. The Court erred in finding that the mark of appellee “refers to a method of use and is not a name descriptive of the article itself” (Tr. 45).

9. The Court erred in finding that “there is not the slightest relationship between the merchandise of the defendant [appellant] and the kind of sanitary service provided by plaintiff [appellee]” and that “not by the wildest stretch of imagination could a person using plaintiff’s [appellee’s] seat covers in a public lavatory, be confused at all into believing that by such use he was purchasing defendant’s [appellant’s] merchandise” (Tr. 45-46).

10. The Court erred in finding that “there is and has been no ‘unfairness’ in appellant’s conduct . . . to warrant application of the ‘noncompetitive goods’ doctrine” and in finding that “any relationship between groceries of defendant’s [appellant’s] retail stores is extremely remote from the sanitary service by plaintiff [appellee] supplied to laboratories” (Tr. 46).

11. The Court erred in concluding that appellant “has not been damaged, as asserted in its counterclaim, and cannot be damaged in the future, by any act of plaintiff [appellee] in the use of his said trademark so applied” and that appellant cannot “be dam-

aged by the authorization of this Court to the Patent Office to grant registration of his trademark as prayed in the complaint" (Tr. 47).

12. The Court erred in concluding that appellee "became the owner of said trademark 'Safe Way' as so applied, under the common law by adoption and use in October 1933, and since said date he has not abandoned the use of said mark and is still the owner thereof" (Tr. 47).

13. The Court erred in concluding that "the extensive use of the name 'Safeway' by individuals, corporations or concerns other than defendant [appellant] in this action in their corporate or business names, and such extensive use of said mark as a trade-mark as shown by many registrations of it prior to the time defendant [appellant] in this action acquired title to the stores of its alleged subsidiary corporations (in which it owned stock prior to acquirement of title) should bar defendant [appellant] from opposing applicant's [appellee's] registration and warrant the grant of the relief prayed in the complaint" (Tr. 47).

14. The Court erred in concluding that "the circumstances (even if true, but not shown by the evidence and not proven or capable of inference from the evidence) that the registration of plaintiff's [appellee's] mark will cause confusion and mislead the public into belief that applicant's [appellee's] goods are manufactured by or sponsored by defendant [appellant] in this action, and that such would damage defendant [appellant], is not damage of the

character contemplated by statute, and the prayer for authorization of this court of registration of plaintiff's [appellee's] mark must be granted, since toilet seat covers and grocery items are not goods of the same descriptive properties" (Tr. 48).

15. The Court erred in concluding that "toilet seat covers, under the law, are not of the same descriptive properties as grocery items sold by defendant [appellant], such as paper towels or toilet tissues" (Tr. 48).

16. The Court erred in entering judgment authorizing and directing the Commissioner of Patents to grant the registration (Tr. 49).

17. The Court erred in denying appellant injunctive relief on its counterclaim.

18. The judgment is contrary to law.

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#### **SUMMARY OF ARGUMENT.**

Since 1926 appellant has been engaged under the name "Safeway" in the manufacture and distribution of foods and household supplies, including the distribution of large quantities of paper products such as paper toilet tissue, sanitary napkins, facial tissue, paper cups, paper towels and paper napkins. Appellant has conducted a continuous and costly advertising and promotional campaign through this entire period, utilizing its 2300 stores scattered throughout the country, and such advertising media as newspapers, magazines, billboards, car cards, price tags, gummed



tapes, receipts, invoices, paper bags, display cards, radio. Annual advertising expenditures have approximated four million dollars. As a result the name "Safeway" has become synonymous with appellant, "Safeway Stores, Incorporated".

In 1933, seven years after appellant's first use of the name, appellee adopted the name as a trade-mark for paper toilet seat covers manufactured and distributed by him. He has used and is using the names "Safe Way" alone, with a pictorial representation of a seat cover and without any name or writing to indicate the source.

Registration of the name "Safe Way" as a trade-mark for appellee's seat covers and appellee's continued use of such a mark would entail a reasonable likelihood of public confusion, as found and decided by the patent officers, because the name "Safeway" designates appellant in the minds of the public, and because appellee's paper toilet seat covers and business are similar to the toilet tissue, sanitary napkins, paper towels, facial tissue, paper cups and paper napkins dealt in by appellant. All are small, disposable paper products used as aids to personal hygiene and sanitation distributed in part in retail stores and in part through public lavatory facilities. Under these circumstances, and absent clear and convincing evidence to the contrary, of which there was none, the district judge was bound by the decisions of the Patent Office, an expert administrative tribunal.

Independently of the Patent Office decisions, the district judge erred in determining that there was no



likelihood of confusion between appellee's business and product and appellant's business and product.

Public confusion being likely, trade mark registration should be denied, and appellee should be enjoined from using the name "Safe Way."

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## ARGUMENT.

### THE EVIDENCE.

#### **Appellant's business.**

Since 1926 appellant has been engaged in the manufacture and distribution of foods and household supplies under the name "Safeway" (Tr. 42, 79). Appellant handles in its stores—in addition to a complete line of foods and groceries—large quantities of paper products including paper toilet tissue, sanitary napkins, facial tissue, paper cups, paper towels and paper napkins, and also a variety of other products as diverse as razor blades and oyster pails (Tr. 42, 81).<sup>3</sup>

Its business is wide and comprehensive in functions performed and areas served, as well as in kinds of goods and household products handled. Thus it manufactures, distributes and retails food and household

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<sup>3</sup>"The retail stores handle the usual grocery items, such as canned goods, coffee and tea, tobacco and tobacco products, and candy, dried foods, dairy products, eggs, beverages, produce, meat, poultry, as well as a number of household items which are generally as follows:

"Light globes, matches, paraffine wax, brooms, clothespins, floor waxes, furniture polishes, glass cleaners, insecticides, metal polishes, shoe polishes, toothpicks, brushes, mops, oyster pails, paper trays, razor blades, shopping bags, and paper products, such as drinking cups, paper bags, paper napkins, paper towels, facial tissue, toilet tissue, wax paper and sanitary napkins." (Tr. 81.)

products in approximately 2300 stores in 19 western states and 4 eastern states and the District of Columbia (Tr. 42, 128).<sup>4</sup> In 1946 appellant's sales of toilet tissue aggregated \$389,000 in southern California alone (Tr. 132).

#### **Appellant's name and reputation.**

The name "Safeway" alone and without the words "Stores" and "Incorporated" is prominently displayed by appellant in signs on its stores, in newspaper, magazine, outdoor billboard and car card advertisements, price tags, gummed tape, cash register receipts, invoices, paper bags, display cards and other forms of advertising (Tr. 82-85, 236-237, 239-242). A typical example of appellant's store signs is shown in the reproduction of Patent Office Exhibit 6<sup>5</sup> on the following page.

The name "Safeway" alone has also been extensively advertised by appellant in radio broadcasts (Tr. 85-91, 239). Appellant expends approximately \$4,000,000 per year advertising the name (Tr. 133-134, 238-239).

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<sup>4</sup>The manufacturing and distribution businesses include the slaughtering of meat and packing of meat products, the processing or packing of shell eggs and frozen egg products, the processing of fresh fish to frozen form, the packing of canned meal, the processing and packing of poultry, roasting and packing of coffee, and the packing of tea, the packing of produce, the manufacture of bakery products, the manufacture of crackers, gelatin desserts powders, the processing of butter, the processing and bottling of fluid milk, cream, cheese and other dairy products; the manufacture and bottling of soft drinks; the canning of fruits and vegetables, the manufacture of salad dressings, peanut butter, and food flavorings, syrups, and manufacture of candy bars (Tr. 82-83).

<sup>5</sup>Appellee introduced the patent office record in evidence (District Court Exhibits 1, 2, 3 and 4). In view of the voluminous character thereof, this Court ordered that only portions thereof be printed, but that the entire record would be considered on the appeal.



Appellant's sales in its retail stores under the name "Safeway" aggregate in excess of one-half billion dollars per year (Tr. 128, 132) and in the communities served by it, its stores regularly serve approximately sixty (60) per cent of the public (Tr. 137).

In addition to its use of "Safeway" as a trade name, appellant sells certain of its more important products, notably vegetables and many of its meats, under the mark or name "Safeway" (Tr. 247-250, Pat. Off. Rec. Selby dep. Exs. 11-41). These exhibits show that appellant advertises its meats and vegetables as "Safeway Meats and Vegetables." It does not use the name "Safeway" as a brand name or mark on its paper products, but they are, of course, sold under the name "Safeway" in the "Safeway" stores.

By reason of appellant's extensive business and its use and advertising of the name "Safeway," that name has come to mean appellant in the public mind; that is, the name "Safeway" means to the public "Safeway Stores, Incorporated" a large manufacturing, distributing and retailing enterprise dealing in groceries and household products, including toilet tissue and a wide variety of other paper products (Tr. 42, 91, 104).<sup>6</sup> For example, in Los Angeles County alone, where appellant operates about 200 stores, to 90% of the population, or 3,300,000 people, the name "Safeway" means appellant even when not used in relation to the grocery business (Tr. 109).

**Appellee's business and use of the name "Safeway".**

In 1933, long after appellant's widespread use of the name "Safeway," appellee Dunnell commenced manufacturing paper toilet seat covers in Los Angeles (Tr. 74, 152). He sells them principally to building maintenance concerns for distribution, in California and other Western States, to the general public in public toilets (Tr. 340-342). He uses the name "Safe Way" on toilet seat cover dispensing cabinets (Ex. V) and on cartons and advertising materials (Exs. O, P, Q, R, S) but not on the covers themselves (Tr. 156). These dispensing cabinets are installed in toilet stalls and on them the name "Safe Way" appears alone, together with a pictorial representation of a seat cover, and without any name or writing to indicate the source (Tr. 156, Ex. V). In some of appellee Dunnell's advertising the words

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<sup>6</sup>The statement "I am with Safeway" means to the public "I am employed by Safeway Stores, Incorporated" (Tr. 91).

Obviously, toilet seat covers are suitable for store sale, not only to tourists and travelers, but to boarding houses, guest houses, farms and other establishments where the toilet facilities are used by persons not members of the same family. These users and purchasers of seat covers are members of the general public who also patronize appellant and regularly purchase its goods, including toilet tissue, paper towels, sanitary napkins, paper napkins, razor blades and the many other products handled by it. Such persons know appellant as "Safeway," they know that stores like appellant sell paper products including *paper toilet seat covers*.

In fact, appellant has not yet added toilet seat covers to the products handled by it. However, it is appellant's policy constantly to add new items to those theretofore handled as justified by demand (Tr. 251-252). The toilet seat cover business is now in its infancy and the use and acceptance of the product will undoubtedly grow tremendously (Tr. 159). The toilet seat cover industry is today in the position that the paper towel industry was a generation ago when, as the Court judicially knows, cloth towels or no towels, were the rule in rest rooms.

**Appellee's bad faith.**

Finally, the evidence shows that appellee is seeking to take advantage of the reputation that appellant has developed by its business practices. Thus, although appellee denied knowledge of the existence of appellant in 1933 when appellee first used the name in Los Angeles (Tr. 141), on the presentation of evidence of



the existence in 1933 of 320 stores located at prominent points in the business and residential areas of Los Angeles, all designated as Safeway Stores (Tr. 139-142), his counsel admitted that in 1933 he knew of appellant (Tr. 140). Obviously, appellee did know and adopted the name knowing of its value and repute.

Also relevant is the circumstance that although in this proceeding appellee has maintained that his products, paper toilet seat covers, are not suitable for over-the-counter sale in stores, even to the point of denying that he ever attempted to sell them for such purpose (Tr. 343, 369-370), the record shows conclusively that he advertised for sale over the counter (Exs. O, P, Q, R, S), and that paper toilet seat covers are so sold is conclusively established by the uncontradicted testimony of Mr. Crebbs, a competing manufacturer (Tr. 158-159).

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#### THE LAW.

1. **THE DISTRICT JUDGE ERRED IN DISREGARDING THE PATENT OFFICE FINDINGS AND IN OVERRULING THE PATENT OFFICE DECISIONS.**
  - a. **Effect to be given to findings and decisions in the Patent Office.**

Both the Examiner of Interferences of the Patent Office and, on appeal, the First Assistant Commissioner of the Patent Office found and decided that confusion of persons and reputations is reasonably likely to result from appellee's registration and use of the name "Safe Way," because (1) the name "Safe Way" designates appellant in the minds of the public,



and (2) the goods dealt in by appellant (including paper toilet tissue, paper sanitary napkins, paper facial tissue, paper cups, paper towels and paper napkins) and appellee (paper toilet seat covers) are of a similar nature and of the same descriptive properties.

Clearly, as recounted above in the Statements of the Case and of the Evidence, and as emphasized below (point 1. b.), there was substantial evidence before the District Court to support the Patent Office determinations of likelihood of public confusion. This evidence is, in the main, undisputed. Nor is there dispute that the applicable legal test is likelihood of public confusion.

Under these circumstances it is established that the decision in the Patent Office must be accepted as controlling. The rule is that that decision on a question such as that here presented—whether confusion of the public is reasonably likely—is final unless the contrary is established by evidence which in character and amount carries thorough conviction. If there is substantial evidence to support the Patent Office decisions they must be affirmed. *American Steel Foundries v. Robertson*, 262 U. S. 209, 67 L. Ed. 953, 46 S. Ct. 541 (1923); *Morgan v. Daniels*, 153 U. S. 120, 14 S. Ct. 772, 38 L. Ed. 657 (1894); *Century Distilling Co. v. Continental Distilling Co.*, 106 F. (2d) 486, 489, C. C. A. 3 (1939); *Yale Electric Corporation v. Robertson*, 26 F. (2d) 972, 973, C. C. A. 2 (1928); *Loughran v. Quaker City Chocolate and Confectionery Co.*, 296 F. 822, C. C. A. 3 (1924); *Solventol Chemical Products v. Langfield*, 41 F. Supp. 877 E. D. Mich. (1941).

This rule as to the effect to be given to the decision of the Patent Office was involved in the leading case of *Morgan v. Daniels*, supra. There, as here, the Supreme Court was faced with conflicting determinations by the Patent Office and by the lower Court. It accepted the Patent Office decision, holding that since the question was doubtful, i.e., one on which reasonable men could disagree, the decision of the Patent Office must control. The Court stated in part:

“ . . . An examination of the opinions filed by these different officers indicates that by each of them the matter was carefully considered. Evidently, therefore, the question as to which was the prior inventor is not free from doubt. What, then, is the rule which should control the court in the determination of this case ?

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“ Upon principle and authority, therefore, it must be laid down as a rule that, where the question decided in the patent office is one between contesting parties as to priority of invention, the decision there made must be accepted as controlling upon that question of fact in any subsequent suit between the same parties, unless the contrary is established by testimony which in character and amount carries thorough conviction. Tested by that rule, the solution of this controversy is not difficult. Indeed, the variety of opinion expressed by the different officers who have examined this testimony is persuasive that the question of priority is doubtful, and, if doubtful, the decision of the patent office must control.” (14 S. Ct. at 773 and 774.)

This rule has frequently been applied where the question was as to likelihood of confusion. So, in our case, even if there is doubt as to likelihood of confusion of members of the public regarding the source of appellee's paper toilet seat covers and appellant's toilet tissue, paper towels and other paper products, the resolution of that doubt by the Patent Office must govern.

*American Steel Foundries v. Robertson*, supra, is directly in point. There, as here, the question, as stated by the Supreme Court, was whether registration as a trademark of the word "Simplex" which constituted the name of another corporation would be "calculated to deceive or confuse the public to the injury of the corporation to which the name belongs" (46 S. Ct. at 162). There, too, in the course of the litigation, the Commissioner and the lower Court had disagreed, and the Supreme Court stated:

"Primarily the power and duty rests with the Commissioner of Patents to determine the question in each case, in the exercise of an instructed judgment upon a consideration of all the pertinent facts.

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"... we agree with the Commissioner, and not with the court." (46 S. Ct. at 163).

Again, in the famous case of *Yale Electric Corporation v. Robertson*, supra, also involving the question of likelihood of confusion, Mr. Justice Learned Hand stated the rule as follows at page 973:

"As the case came up, he [the District Judge] was, and we are, required to accept the findings

of the Patent Office on such an issue of fact, unless the evidence to the contrary is altogether convincing, *Morgan v. Daniels*, 153 U. S. 120, 125, 14 S. Ct. 772 (38 L. Ed. 657), for the new evidence was not of a kind to change the result."

In *Kislyn Corporation v. Eastman Kodak Co.*, 43 F. Supp. 552 (1942), the Court states at p. 553:

"The decision of the Patent Office is presumptively correct, and the presumption may be overcome only by clear and convincing proof of palpable error. [Cases cited] A careful examination of the record fails to reveal such error; in fact, it is the opinion of the Court that the decision of the Patent Office was amply supported by the evidence."

All the reasons advanced generally in favor of the doctrine of administrative finality apply to the decisions of the Patent Commissioner in a trademark registration proceeding such as this. "... the Examiner of Trademark Interferences and . . . the Commissioner of Patents (are) experts in the field of trademark practice . . ." *Empire Crafts Corporation v. National Silver Co.*, 55 F. Supp. 1020 (1945). The language of the Supreme Court in *Dobson v. Commissioner*, 320 U. S. 489, 498-499, 64 S. Ct. 239, 245, 88 L. Ed. 248, 254 (1943), relative to the Tax Court may be aptly paraphrased here: The Patent Office is independent and its neutrality is not clouded by prosecuting duties. Its procedures assure fair hearings. Its deliberations are evidenced by careful opinions (see appendix). All guides to judgment available to judges are habitually consulted and re-



spected. It has established a tradition of freedom from bias and pressures. It deals with a subject that is highly specialized and complex. It is relatively better staffed for its task than is the judiciary. Its members not infrequently bring to their task long legislative or administrative experience in their subject. The volume of matters flowing through the Patent Office keeps its staff abreast of changes, informed as to the background of controversies, and aware of the impact of their decisions on both public and litigants. Individual cases are disposed of wholly on records publicly made, in adversary proceedings.

The doctrine of administrative finality is one of especial vitality today and is held applicable to judicial review of a constantly increasing category of administrative determinations. It should not be discarded here. *Cardillo v. Liberty Mutual Ins. Co.*, 330 U. S. 469, 67 S. Ct. 801, 806-807, 91 L. Ed. 743, 748-749 (1947); *Rochester Telephone Corp. v. U. S.*, 307 U. S. 125, 139, 83 L. Ed. 1147, 1157-8, 59 S. Ct. 754 (1939); *Reconstruction Finance Corp. v. Bankers Trust Co.*, 318 U. S. 163, 63 S. Ct. 515, 518, 87 L. Ed. 680 (1943); *Dobson v. Commissioner*, 320 U. S. 489, 498, 64 S. Ct. 239, 88 L. Ed. 248 (1943); *Swayne & Hoyt v. United States*, 300 U. S. 297, 304, 57 S. Ct. 478, 481, 81 L. Ed. 659 (1937); *Mississippi Valley Barge Line Co. v. United States*, 292 U. S. 282, 286, 54 S. Ct. 692, 693, 694, 78 L. Ed. 1260 (1934); *Gray v. Powell*, 314 U. S. 402, 412, 62 S. Ct. 326, 332, 86 L. Ed. 301 (1941); *Helvering v. Clifford*, 309 U. S. 331, 336, 60 S. Ct. 554, 557, 84 L. Ed. 788 (1940); *United States v.*

*Louisville & N. R. Co.*, 235 U. S. 314, 320, 35 S. Ct. 113-114, 59 L. Ed. 245 (1914); *Wilmington Trust Co. v. Helvering*, 316 U. S. 164, 168, 62 S. Ct. 984, 986, 86 L. Ed. 1352 (1942).

Thus the question is not whether there is support in the evidence for Judge Goodman's decision. Rather it is whether the evidence shows clearly and convincingly that the Patent Office decisions were wrong or, otherwise stated, whether there is substantial evidence to support the Patent Office decisions.

**b. There was substantial evidence before the district judge to support the Patent Office decisions.**

That the evidence before the District Judge supported (if, indeed, it did not compel) a finding like that in the Patent Office that confusion of the public is likely, appears from each of the following undeniable and uncontroverted circumstances:

**(1) Secondary meaning of name "Safeway".**

The name "Safeway" designates appellant and its business in the minds of the public; the District Judge joined the Patent Office in so finding (Tr. 36, 42).

**(2) Similarity of product.**

Appellee's paper toilet seat covers are similar to appellant's products in each of the following particulars:

(a) Like toilet tissue, paper towels, paper cups, sanitary napkins and facial tissue; paper toilet seat covers constitute a small disposable paper product used as an aid to personal hygiene and sanitation (See samples included in Ex. V).



(b) Like toilet tissue, paper towels and paper cups; paper toilet seat covers are commonly supplied to the public gratis in public lavatories as a sanitary service; and the District Judge found that they were so supplied (Tr. 43).

(c) Like toilet tissue, paper towels, paper cups, sanitary napkins and facial tissue; paper toilet seat covers are dispensed from a container or cabinet to the general public; and the District Judge found that they were so dispensed (Tr. 42).

(d) Like toilet tissue, paper towels, paper cups, sanitary napkins and facial tissue (albeit on a lesser scale); paper toilet seat covers are sold in stores to the general public (Tr. 158-159).<sup>8</sup>

(e) Toilet tissue and paper towels are frequently used by the public as substitutes for toilet seat covers. Thus appellee states in his advertising literature as one of the "Practical Reasons" for installation of toilet seat covers in public lavatories: "Save toilet tissue and towels, \* \* \*." (Ex. O).

### (3) Similarity of business.

Both appellant and appellee are engaged in the manufacture as well as the distribution of merchandise to the general public, appellant through self-service stores and appellee through self-service dispensing cabinets.

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<sup>8</sup>Although the District Judge did not so find it is clearly shown by the uncontradicted evidence (Tr.. 158-159).

Thus there are striking points of similarity in product and business. These, together with the general public understanding that "Safeway" designates appellant, require, under the rule of *Morgan v. Daniels*, supra, 153 U. S. 120, 14 S. Ct. 772, 38 L. Ed. 657 (1894), the sustaining of the Patent Office determinations that confusion of source is likely and the denial of registration. At most "the question is doubtful . . . and the decision of the Patent Office must control" *id.* 14 S. Ct. at 774.

c. The circumstances emphasized by the district judge do not dispel the facts supporting the Patent Office finding of likelihood of confusion.

(1) Dissimilarity in method of distribution.

In finding that there is "not the slightest relationship" of product or business (Tr. 37-38) and no possibility of confusion, the District Judge argued, first, that the public obtains the "Safe Way" paper product of appellee Dunnell as part of a gratuitous sanitary service in public lavatories, whereas, it buys appellant's paper products in the latter's retail stores. There is nothing in this dissimilarity in method of distribution to dispel the likelihood of confusion. Members of the public, particularly in these days of horizontal and vertical business integration, might well think that the "Safe Way" seat covers had been acquired by the public lavatory from appellant.<sup>9</sup> More likely, knowing appellant as "Safeway,"

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<sup>9</sup>In the *Stork* case C.C.A. 9 (1948) 2/18/48, 165 F. (2d) ....., this Court held that "mere geographical distance does not obviate the danger of confusion". By parity of reasoning, mere difference in commercial function performed does not obviate the danger of confusion.

a member of the public, without query, would simply associate the "Safe Way" product with appellant. "The law is not made for the protection of experts, but for the public—that vast multitude which includes the ignorant, the unthinking, and the credulous, who . . . do not stop to analyze but are governed by appearances and general impressions." *Florence Mfg. Co. v. J. C. Dowd & Co.*, C. C. A. 2 (1910), 178 F. 73, 75; see, also, *Stork Restaurant, Inc. v. N. Sahati, et al.*, C. C. A. 9, Feb. 18, 1948, 165 F. (2d) ..... Plainly, this dissimilarity in method of distribution emphasized by the District Judge does not dispel the likelihood of public confusion.

**(2) Descriptiveness of use of name.**

Secondly, the District Judge emphasized, as negating likelihood of confusion, that "the mark of plaintiff [appellee] . . . refers to a method of use and is not a name descriptive of the article itself" (Tr. 37). Whether "Safe Way" as applied to appellee's products, refers to a method of use or whether it is descriptive of the article, seems wholly immaterial. The material fact is that appellee seeks, by registration of the name "Safe Way" to acquire the right under the Federal Trademark Act to use it as a trademark, i.e., "to identify his goods and distinguish them from those manufactured or sold by others." 15 U. S. C. § 1127. "According to historical development, economic trends and habits of consumers, the trade mark functions as an indication of ownership, as a guarantee and as an advertisement." 2 *Callman, Unfair Competition and Trade Marks*, p. 804. Appellee

is seeking by this litigation an adjudication that he is entitled to use the name as a trademark for his product. The use of the term "Safe Way" as such a trade mark will inevitably have the effect of giving his product the name "Safe Way." There is no issue on the question as to appellee's right to use the words "Safe" and "Way" to describe his product or its method of use. Appellant does not seek to arrogate these words to itself. It simply seeks to prevent the use of them by another in such manner as to cause public confusion. The Federal Trademark Act expressly provides that in such a situation registration will not be permitted.

**d. The evidence in the District Court was not substantially different from that in the Patent Office.**

Relevant is the circumstance that appellee Dunnell introduced in the District Court (in addition to the Patent Office Record which he introduced in its entirety (Exs. 1, 2, 3, 4)) no evidence tending to defeat the foregoing. His evidence, which covers but ten pages of the record (Tr. 66-74) is to the effect simply that respondent has no knowledge of confusion or mistake (Tr. 66); that he sells only to customers of the character of building maintenance supply companies (Tr. 67); that he has a good reputation (Tr. 67-69); that appellant does not sell seat covers (Tr. 70); that appellant had never complained to appellee (Tr. 70); that appellant had notice of appellee's use (Tr. 70-72);<sup>10</sup> that appellee is dissatisfied with the Patent Office decisions, has not appealed to the Court of Cus-

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<sup>10</sup>The Court did not so find.

toms and Patent Appeals and elected to proceed in the District Court (Tr. 72); that he will suffer damage if he cannot register the mark (Tr. 73); that he has invested \$20,000 in his business (Tr. 73, 74) and that he manufactures his covers (Tr. 74). Appellant produced additional evidence (Tr. 78-184) tending in the main to show the character of the businesses of appellant and appellee and the meaning to the public of the name "Safeway" as appellant.

It is apparent that the evidence contains no basis for a reversal of the Patent Office finding of a likelihood of confusion. Certainly there was no "palpable error" in the Patent Office decisions and the District Court should have followed them.

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**2. THE DISTRICT JUDGE ERRED, INDEPENDENTLY OF HIS FAILURE TO FOLLOW THE PATENT OFFICE DECISIONS, IN DECREERING REGISTRATION OF THE NAME "SAFE WAY" AS A TRADE MARK FOR APPELLEE'S TOILET SEAT COVERS.**

Apart from the Patent Office decisions and the weight to be accorded them, the record shows conclusively that appellant's use of the name "Safe Way" is calculated to confuse the public. There is no dispute relative to the facts developed above showing likelihood of confusion. These points were determined not only in the Patent Office but also by the District Judge. He found that "Safeway" means appellant, Safeway Stores, Incorporated, to the public (Tr. 42) and that appellant deals in paper products, including paper toilet tissue, sanitary napkins, facial tissue,



paper cups, paper towels and paper napkins (id.). These findings show the likelihood of confusion if appellee is permitted to mark his closely related paper seat covers as "Safe Way." They will now be considered in the light of the Trademark Act and the cases decided under it.

**a. There is likelihood of confusion within the meaning of the Trademark Act.**

The so-called name clause of the Federal Trademark Act provides, in part, that "no mark which consists merely in the name of an individual, firm, corporation or association not written, printed, impressed, or woven in some particular or distinctive manner . . . shall be registered . . ." 15 U.S.C. § 85). The application of this provision to a case such as ours in which only a portion—"Safe Way"—of the corporate name—"Safeway Stores, Incorporated"—is sought to be registered as a trademark is set forth in *American Steel Foundries v. Robertson*, supra, 269 U. S. 372, 70 L. Ed. 317, 46 S. Ct. 160 (1926). In that case, there was involved the right to register as a trademark the name "Simplex" which was part of the name of the opposer corporation. The Court stated the applicable rule as follows: ". . . where less than the whole name has been appropriated, the right of registration will turn upon whether it appears that such partial appropriation is of such character and extent that, under the facts of the particular case, it is calculated to deceive or confuse the public to the injury of the corporation to which the name belongs". 269 U. S. at 382.



This rule the Court recognized was simply the application of "those established principles in respect of the appropriation of corporate names" that have been developed by equity as part of the doctrine of unfair competition. 162 U. S. 380-382.

The rule of the *Simpler* case has been applied many times since to preclude registration of a portion of a corporation's name when there was a likelihood of confusion of the public. *Radio Corporation of America v. Rayon Corporation of America*, 139 F. (2d) 833, C.C.P.A. 1943; *Duro Pump & Mfg. Co. v. California Cedar Products Co.*, 11 F. (2d) 205, App. D. C. 1926; *Feldman v. Amos and Andy*, 68 F. (2d) 746, C.C.P.A. 1934; *Yale Electric Corporation v. Robertson*, 26 F. (2d) 972, C.C.A. 2, 1928; *Kroll Bros. Co. v. Rolls-Royce*, 126 F. (2d) 495, C.C.P.A. 1942; *Safeway Stores, Incorporated v. Safeway Opticians, Inc.*, 68 U.S.P.Q. 332, Pat. Comm. 1946; *Beechnut Cereal Co. v. Beech-Nut Packing Co.*, 273 F. 367, App. D. C. 1921; *Holly Molding Devices v. Esquire, Inc.*, 148 F. (2d) 355, C.C.P.A. 1945.

In *Radio Corporation of America v. Rayon Corp. of America*, 139 F. (2d) 833, C.C.P.A. 1943, *supra*, "R. C. A. Fabric" was denied registration as a trademark for cloth on the opposition of Radio Corporation of America. There was no actual competition and, in fact, there was little, if any, relationship between the business of Radio Corporation of America and the cloth sought to be trademarked by the Rayon Corporation of America. Yet the Court pointed out that cloth and radio were both used in the home and

emphasized that the name "R. C. A." had acquired a general meaning as designating Radio Corporation of America, and so the dissimilarity of product was not controlling. In our case, too, both products are used in the lavatory, and appellant is generally known as "Safeway" to the public (Tr. 36, 42).

In *Duro Pump & Mfg. Co. v. California Cedar Products Co.*, 11 F. (2d) 205, App. D. C. 1926, "*Duro*" as a trademark for wallboard, was denied registration on the opposition of the Duro Company, manufacturers of water pumps and related equipment. The Court said, in part:

"In the present case, when the California Cedar Products Company adopted the word 'Duro' as its trademark, that word had 'become so identified with the particular corporation' (the Duro Company) that, whenever used, it designated to the mind 'that particular corporation.' While the descriptive properties of the products of the two companies are technically different, both are used in residences, and under the evidence, we are constrained to the view that their concurrent use would tend to confusion of the identity of the Duro Company."

In the recent case of *Holly Molding Devices v. Esquire, Inc.*, 148 F. (2d) 355, C.C.P.A. 1945, "*Esquire*" as a trademark for hamburger molding machines was denied registration on the opposition of Esquire, Inc., the publisher of the well known magazine. Patently, there was not the slightest similarity or competition between the magazine and the hamburger machine, not even sold to the general public.

However, the name "Esquire", like "Safeway", had become so identified with a particular enterprise in the public mind that confusion could result, and relief was granted.

Other cases are to the same effect: *Feldman v. Amos and Andy*, 68 F. (2d) 746, C.C.P.A. 1934 ("Amos 'N Andy" as trademark for work shirts denied registration on opposition of radio entertainment firm of "Amos and Andy"); *Yale Electric Corporation v. Robertson*, 26 F. (2d) 972, C.C.A. 2, 1928 ("Yale" as trademark for flashlights and batteries denied registration on opposition of Yale & Towne Manufacturing Co., a manufacturer of locks); *Kroll Bros. Co. v. Rolls-Royce*, 126 F. (2d) 495, C.C.P.A. 1942 ("Kroll's Royce" as trademark for baby buggies denied registration on opposition of Rolls Royce Company); *Safeway Stores, Incorporated v. Safeway Opticians, Inc.*, 68 U.S.P.Q. 332, Pat. Comm. 1946 ("Safeway" as trademark for eyeglasses denied registration on opposition of Safeway Stores, Incorporated); *Beechnut Cereal Co. v. Beech-Nut Packing Co.*, 273 F. 367, App. D. C. 1921 ("Beechnut" as trademark for cereal denied registration on opposition of Beech-Nut Packing Co.).

#### b. The Lanham Act.

The principle of these cases is now incorporated in the Lanham Act (15 U.S.C. § 1051 et seq.), which became effective in July 1947, after the judgment in the District Court and prior to the taking of this appeal. It prohibits registration as a trademark of a mark

“which so resembles . . . a mark or trade name previously used in the United States by another and not abandoned, as to be likely, when applied to the goods of the applicant to cause confusion or mistake or to deceive the purchasers . . .”. 15 U.S.C. § 1052(d). Even though “Safeway” is not appellant’s “name” within the literal language of the old statute, it is plainly appellant’s “trade name” within the express language of the Lanham Act. It has been observed that the change in wording of the statute broadens the substantive limitations on registration where confusion may result:

“The concept of confusion has been freed from the limitations of the Act of 1905 and is much broader under the new Act. Confusion no longer relates solely to the confusion of goods or businesses, or the relations between goods or businesses. We may now refer not only to this ‘relative’ confusion, but also to a concept of absolute confusion, one that arises out of the use of an established mark by another in connection with a business entirely alien to that of the trademark owner. Thus, we may find that the public is confused with respect to the nature of a mark, when its use provokes doubt as to whether the mark is still a valid mark, whether it has lost its distinctiveness as such, or whether it has begun the journey toward becoming generic. And it seems obvious that one who starts the mark on that journey, unless he is the owner of the mark, should be restrained. Confusion will, of course, be at an end once the destructive forces have succeeded in transmuting the mark into a truly generic term. But confusion will doubtless result

during the period of the transition. Under the new Act, the owner of the mark will be in a position to sterilize such a development in its incipency. And this is only logical. The law presently threatens the trade-mark owner with cancellation of his registration if he allows the mark to lose its distinctiveness. Conversely, he should be armed with a weapon by which he can prevent that debilitating development." 2 *Callman, Unfair Competition and Trade Marks*, 1947 Supp. p. 50.

Thus, even though the judgment of the District Court may be said to have been proper as made under the somewhat narrower statute in effect prior to the effective date of the Lanham Act, the broader principles of the Lanham Act should be applied to this appeal. Even though—as the District Judge held—the public may not be confused into thinking that Safe Way Toilet Seat Covers are sponsored by or identified with appellant, Safeway Stores, Incorporated, at the very least the public will be lead to believe by the continuing encroachment on the name by appellee and others that it is not identified with appellant, Safeway Stores, Incorporated, and the public will be confused even in appellant's own use of the name as to whether it identifies appellant.

The Lanham Act is expressly made applicable to appeals pending on its effective date (Section 47(b) set out in Note to 15 U.S.C.A. 1051). Plainly, it must be held applicable to this appeal which was taken after its effective date.



- c. It is significant that appellee's attempted appropriation is of a single word in appellant's name, which word has, itself, come to mean appellant to the public.

In the *Simpler* case, supra,<sup>p. 29</sup> the Court recognized that regardless of dissimilarity of product, protection would be afforded under the name clause in "instances where a single word in the corporate name has become so identified with the particular corporation that whenever used it designates to the mind of the public that particular corporation." 269 U. S. at 382-3. As noted above, this factor was given great emphasis in the *R. C. A.*, *Duro* and *Esquire* cases. Safeway Stores, Incorporated "has come to be widely known merely as 'Safeway'; in fact, it has almost invariably used that word, alone, as its name. And while it may not be as universally recognized as is Radio Corporation of America, its customers constitute a very considerable portion of the American public." (Opinion, Assistant Commissioner of Patents.) "The evidence without dispute shows that the general public identifies these stores under the name 'Safeway'" (Findings, District Judge, Tr. 42).

- d. It is significant that the word "Safeway" is the only distinctive portion of appellant's corporate name, the remainder, i.e., "Stores" and "Incorporated" being nondescript and not distinctive.

The cases have sensibly recognized that this factor, too, is important as showing the likelihood of public confusion. *Holly Molding Devices v. Esquire, Inc.*, 148 F. (2d) 355, C.C.P.A. 1945; *Beechnut Cereal Co. v. Beech-Nut Packing Co.*, 273 F. 367, App. D. C. 1921; *Asbestone Co. v. Philip Carey Manufacturing*



*Co.*, 41 App. D. C. 507; *The Fyr-Fyter Co. v. William L. Barrell Co.*, 475 O. G. 688, 32 U.S.P.Q. 260; *White Cap v. Allied Stores Corporation*, 41 U.S.P.Q. 554; *Ex parte The American Thermos Bottle Company*, 4 U.S.P.Q. 326.

These cases recognize that those words in a name which are nondescript such as "company", "incorporated", "limited", "packing", and (we submit) "stores" are to be disregarded in determining what is the corporate name within the meaning of the statute. Thus, "Beech-Nut" is the name of the Beech-Nut Packing Company and "Esquire" was held to be the name of Esquire, Inc. Similarly, "Safeway" is the name of Safeway Stores, Incorporated.

We submit that, independently of the Patent Office decisions which should be followed, there is a great likelihood of public confusion if both appellant and appellee continue to use the name, "Safeway", and that the Patent Office should not be required to register it as a trademark for appellee's paper toilet seat covers. This conclusion must be reached under the law in effect when the case was decided below, and, even more certainly, under the Lanham Act.

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**3. THE DISTRICT JUDGE ERRED IN DENYING APPELLANT INJUNCTIVE RELIEF AGAINST APPELLEE'S USE OF THE NAME "SAFE WAY".**

**a. Application of law of unfair competition.**

Appellant is entitled on its counterclaim to injunctive relief against appellee's continued use of the

name "Safe Way" on the principles of the law of unfair competition closely related to those discussed above under the Federal Trademark Act.

(1) **The test is likelihood of confusion.**

This principle, as here applicable, has been recently re-stated by this Court in *Stork Restaurant, Inc. v. N. Sahati, et al.*, C.C.A. 9 (2/18/48) 165 F. 2d .....:

"We reach now what is perhaps the controlling principle in the instant case—that of 'confusion of source', with its corollary, 'dilution of good-will'."

\* \* \* \* \*

"In a situation where there is no direct competition between the parties, confusion of source may be defined as a misleading of the public by the imitation of 'An attractive, reputable trade-mark or trade-name . . . not for the purpose of diverting trade from the person having the trade-mark or trade name to the imitator, but rather for the purpose of securing for the imitator's goods some of the good-will, advertising and sales stimulation of the trade-mark or trade name.' Restatement, *id.*, at page 597.

" 'One's interest in a trade-mark or trade name came to be protected, therefore, not only on competing goods, but on goods so related in the market to those on which the trade-mark or trade name is used that the good or ill repute of the one type of goods is likely to be visited upon the other. Thus one's interest in a trade-mark or trade name is protected against being subjected to the hazards of another's business.' " Restatement, *id.*, at pages 597-598.

The doctrine is well recognized in California. In the motion picture case, *supra*, 15 C. (2d) at page 689, the Supreme Court of the State said:

“ ‘The decisions of the courts for the most part are concerned with the principles applicable to infringement and unfair competition in respect to businesses which are directly competitive. But we perceive no distinction which, as a matter of law, should be made because of the fact that the plaintiff and the defendant are engaged in non-competing businesses. In situations involving the use of proper surnames in non-competitive businesses it has been held that *where confusion was shown as likely to result the relief should be accorded to the complaining party.* [Cases cited.] Likewise it has been said that “without regard as to whether there is actual market competition between the parties for the same trade, it is sufficient if the unfair practices of the one will injure the other”.’ [Emphasis supplied.]”

This principle has been applied by many authorities to enjoin use of name or mark by various types of businesses where public confusion may result. Thus A. & P. groceries have been protected against A. & P. dyers and cleaners (*Great Atlantic & Pacific Tea Co. v. A. & P. Cleaners & Dyers, Inc.*, 10 F. Supp. 450, W.D. Pa. 1934), and against A. & P. radios, washing machines, and electric refrigerators (*Great Atlantic & Pacific Tea Co. v. A. & P. Radio Stores, Inc.*, 20 F. Supp. 703, E.D. Pa. 1937); Yale keys and locks have been protected against Yale flash lights and flash light batteries (*Yale Electric Corporation v.*

*Robertson*, 26 F. (2d) 972, C.C.A. 2, 1928); Rolls Royce automobiles against Rolls Royce radio tubes (*Wall v. Rolls Royce of America*, 4 F. (2d) 333, 334, C.C.A. 3, 1925); Tiffany's jewelry store against Tiffany motion picture theatre (*Tiffany & Co. v. Tiffany Productions*, 264 N.Y.S. 459, 147 Misc. 679, 1932, aff'd 260 N.Y.S. 821, 237 App. Div. 801, 1932; aff'd 188 N. E. 30, 262 N. Y. 482, 1933); Dunhill smoking pipes against Dunhill shirts (*Alfred Dunhill of London v. Dunhill Shirt Shop*, 3 F. Supp. 487, S.D.N.Y. 1929); Vogue fashion magazine against Vogue hats (*Vogue Co. v. Thompson-Hudson*, 300 F. 509, C.C.A. 6, 1924); rehearing den. 12 F. (2d) 991, 1926; cert. den. 273 U. S. 701, 71 L. Ed. 850, 47 S. Ct. 98, 1926); see also *Hanson v. Triangle Publications*, 163 F. (2d) 74; Life Magazine against Movie Life Magazine (*Time, Inc. v. Barshay*, 27 F. Supp. 870, S.D.N.Y.); Academy motion picture industry institution against Academy drama school (*Academy of Motion Picture Arts and Sciences v. Benson*, 15 C. (2d) 685, 1940).

Other cases have protected retailer against wholesaler (*Jackman v. Mau*, 78 C. A. (2d) 234, 177 P. (2d) 599, 1947; *Fishel & Sons, Inc. v. Distinctive Jewelry Co.*, 188 N.Y.S. 633, 196 App. Div. 779, 1921; *British-American Tobacco Company, Ltd. v. British American Cigar Stores Co.*, 211 F. 933, C.C.A. 2, 1914; *Coca-Cola v. Brown & Allen*, 274 F. 481, D.C. 1921; *Horlick's Malted Milk Corp. v. Horluck's, Inc.*, 59 F. (2d) 13, C.C.A. 9, 1932; *Riggs Optical Co. v. Riggs*, 132 Nebr. 26, 270 N.W. 667, 1937; *Soft-Lite Lens Co. v. Ritholz*, 301 Ill. App. 100, 21 N.E. (2d)

835; *Folmer Graflex Corp. v. Graphic Photo Service*, 35 F. Supp. 963, D.C. Mass. 1940; newspaper against bicycles (*Walter v. Ashton*, L. R. (1902) 2 Ch. 272); Magazine "Time" against cereal (*Time v. Viobin*, 40 F. Supp. 249, E.D. Ill. 1941); radio station WOR against printer (*Bamberger v. Orloff*, 44 F. Supp. 904 S.D. N.Y. 1942); meat packer against automobile tires (*Armour & Co. v. Master Tire & Rubber Co.*, 34 F. (2d) 201, S.D. Ohio 1925); trading posts buying raw furs from trappers against retail furrier (*Phillips v. The Governor & Co. of Adventurers of England Trading into Hudson's Bay*, 79 F. (2d) 971, C.C.A. 9, 1935).

The toilet tissue, sanitary napkins and other paper products of appellant are far more closely related to appellee's seat covers than were the groceries to the dyers and cleaners, the automobiles to the radio tubes, the jewelry store to the motion picture theatre, the smoking pipes to the shirts, the fashion magazine to the hats, the motion picture industry institute to the drama school, the retailers to the wholesalers, the newspaper to the bicycles, the magazine to the cereal, the radio station to the printer, and the meat company to the automobile tires involved in the cases cited above. Likelihood of confusion is great.

The foregoing analysis is supported, too, by the authorities discussed above under the Federal Trade-mark Act; for those authorities, too, have applied that Act in pursuance of principles of unfair competition. *American Steel Foundries v. Robertson*, 269 U. S. 372, 70 L. Ed. 317, 46 S. Ct. 160, 1926, *supra*; *Yale*



*Electric Corporation v. Robertson*, 26 F. (2d) 972, C.C.A. 2, 1928, *supra*. For reasons fundamentally the same, appellee should be allowed neither to register, nor to use appellant's name.

(2) Competition is not the test.

It is conclusively established by the foregoing cases that there need be no competition between the parties. Particularly is this true in the Ninth Circuit and in California. "For this reason whatever may be the rule in other circuits, the rule declared by our Ninth Circuit Court of Appeals is that competition is not necessary." Yankwich, J. in *Brooks Bros. v. Brooks Clothing of California, Ltd.*, 60 F. Supp. 442, 451, S.D. Cal. 1945, citing *Del Monte Special Food Co. v. California Packing Corp.*, 34 F. (2d) 774, C.C.A. 9, 1929; *Horlick's Malted Milk Corp. v. Horluck's, Inc.*, 59 F. (2d) 13, C.C.A. 9, 1932, *supra*; and *Phillips v. The Governor & Co. of Adventurers of England Trading into Hudson's Bay*, 79 F. (2d) 971, C.C.A. 9, 1935, *supra*; *Academy of Motion Picture Arts and Sciences v. Benson*, 15 C. (2d) 685, 104 P. (2d) 650, 1940, *supra*.

Thus, even though this Court should disregard, as did the District Judge, the suitability for retail sale by appellee of toilet seat covers and hold the product non-competitive with appellant's products, relief must still be granted appellant.

(3) There is a close relationship of product and business.

Both appellant and appellee are manufacturers, and both deal in disposable paper products used as an aid



in personal hygiene, dispensed from a container supplier to the general public gratis in public lavatories and for a price at stores. That the general public may acquire appellee's particular product from self service containers in public lavatories and appellant's products from shelves in self service stores is immaterial as shown by the numerous cases granting relief to persons in one branch of an industry against those in another branch. See the *Vogue*, *Triangle*, *Academy* and wholesaler-retailer cases discussed above.

Likelihood of confusion of source in the case at bar becomes yet more apparent when there is recalled appellant's manifold and variegated activities including, in addition to the conduct of retail stores, the handling of a wide assortment of commodities from razor blades to oyster pails, vast manufacturing, packing, canning and distributing activities, relating to many products. It will be obvious to the Court that to conduct this business, appellant must engage in many other and dissimilar fields as, for example, extensive real estate operations in connection with the purchase, sale and rental of store and plant facilities. How easy for the undiscerning public (*supra*, p. 26) to be mislead by appellee's use of the name "Safe Way."

Pertinent here is the recent decision of Judge Weinberger in *Safeway Stores, Inc. v. Safeway Construction Co., Inc.*, 74 F. Supp. 455, S. D. Cal. November, 1948, granting injunctive relief to this appellant against the use of the name "Safeway" by the defendant engaged in the construction business. The

Court recognized that in the course of its manifold activities appellant necessarily engaged in large scale construction activities. Concerning the meaning and value of the name he stated, at page 456:

“It appears to us from the evidence that the name ‘Safeway’ has become generally known, at least in California, to refer to plaintiff and its store and related activities and has acquired such a secondary meaning as to become associated by the public generally with plaintiff and its business; that plaintiff and its business are well and favorably known to the public and plaintiff has built up an extremely valuable good will for itself and its business and the name ‘Safeway’ with the general public.”

**(4) Appellant’s advertising.**

In determining the protection to be afforded to a name, the Courts have given effect to the significance that a name has acquired as a result of the first user’s expenditure of time, money and effort. This point is fully developed in the *Stork* case, 165 F. (2d) ....., C. C. A. 9, Feb. 18, 1948. It is doubtful that a case can be found in which a name has been more thoroughly publicized than has appellant’s. In the very nature of its business it constantly brings its trade name to the attention of the public by continuous and repeated advertisements, by display signs in its stores and by use of all other advertising media.

**(5) Fanciful character of appellant’s name.**

Also emphasized in the *Stork* case is the importance to be attached to the fanciful character of the name.

The name "Safeway" is a fanciful coined name not found in the dictionary. While the component words themselves are commonplace as is the word "Stork," "Vogue," "Academy," "Seventeen," "Time" and the many other names that have been protected, as a result of appellant's efforts, the name "Safeway" as applied to appellant has acquired a secondary significance of the strongest character, which was fully recognized by the District Judge (Tr. 37).

(6) Difference in size of parties is immaterial

It is settled that "a disparity in size of business will not bar injunctive relief." *Stork Restaurant, Inc. v. N. Sahati*, C.C.A. 9, February 8, 1948, *supra*, 165 F. (2d) \_\_\_\_\_. As stated in *Philadelphia Storage Battery Co. v. Mindlin* (1937), 163 Misc. 52, 296 N.Y.S. 176, 181-182:

"The fear is sometimes expressed that the extension of protection may foster monopoly, not merely of language but of trade. The fear is groundless. He who coins a trade symbol adds rather than detracts from the language. Even when a term in a dictionary is used in an arbitrary manner, the language is not impoverished. The term may still be used in its accepted sense; what equity prevents is the appropriation of the new layers of meaning that have been added by the plaintiff. The rights of the first user can be sustained to the extent that they do not unduly handicap others in the honest conduct of their business. New competition and enterprise 'must not be throttled, but the late comer should be compelled to rely upon his own ingenuity, rather

than misrepresentation and misappropriation for the creation of his market. This much at least is demanded by the most elementary notions of honesty.' Handler, Unfair Competition, 21 Iowa Law Review, 175, 186. Blatant imitation should not be recognized by the judicial condonation of practices which violate the fundamental precepts of fair business dealing."

In defending this suit appellant seeks no monopoly nor does it seek to prevent or restrict in any way Dunnell's legitimate operations. "The owner of a trademark may not, like the proprietor of the patent invention, make a negative and merely prohibitive use of it as a monopoly . . . In truth a trademark confers no monopoly whatever in a proper sense . . ." Mr. Justice Pitney in *United Drug Co. v. Rectanus*, 248 U. S. 90, 97-98, 39 S. Ct. 48, 63 L. Ed. 141, 1918.

**b. Weight to be given to the findings of the District Court.**

The great bulk of the evidence before the District Judge consisted of the Patent Office record which was entirely in the form of documents, physical exhibits and depositions. In the *Stork* case, the Court stated, "in so far as such testimony is concerned, it is well settled that in an equity case 'the reviewing Court gives slight weight to the findings,' citing *Equitable Life Assurance Society v. Irelan*, C. C. A. 9, 123 F. (2d) 462, 464."

- c. The authorities show that the dissimilarities emphasized by the district judge do not dispel the likelihood of public confusion.

Heretofore (point 1. c.) we showed that factually the difference in method of distribution and the gratuitous character of the distribution in public lavatories has no bearing on the likelihood of confusion. We here point out that this view is fully supported by the authorities.

(1) Method of distribution.

That the public receives appellee's "Safe Way" paper product as a service rather than as merchandise in a store is shown to be immaterial by the *Tiffany* case, which protected a jewelry store from confusion resulting from the application of the name "Tiffany" to a service (entertainment) enterprise (motion picture theatre). *Tiffany & Co. v. Tiffany Productions*, 264 N. Y. S. 459, 147 Misc. 679 (1932) aff'd 260 N. Y. S. 821, 237 App. Div. 801 (1932), aff'd 188 N. E. 30, 262 N. Y. 482 (1933). Similarly, in *Great Atlantic & Pacific Tea Co. v. A. & P. Cleaners & Dyers, Inc.*, 10 F. Supp. 450, W. D. Pa. (1934), a food and household goods enterprise, similar to appellant, was protected against the adoption of the name "A & P" by a service establishment, a dyeing and cleaning concern, conducting a business unrelated to the grocery business. Again, in *Socony-Vacuum Oil Co. v. Lafariere*, 48 N. Y. S. (2d) 421 (1944), approvingly noted in the *Stork Club* case Socony-Vacuum selling only oil products was granted injunctive relief against the use of the term "standard" by one engaged in repairing and servicing



oil burners. Plainly, the authorities are not concerned that the name is appropriated for a service rather than a product.

(2) Distribution at wholesale.

Nor can a distinction be based, as suggested by the District Court's language, upon the circumstance that appellee is a wholesaler in the sense that he does not, himself, distribute the goods to the general public and that appellant's business is mainly that of a retailer. It is established beyond doubt that protection of a name will not be denied because one of the parties is a retailer and the other a wholesaler. *Jackman v. Mau*, 78 C. A. (2d) 234 (1947), 177 P. (2d) 599; *Fishel & Sons, Inc. v. Distinctive Jewelry Co.*, 188 N. Y. S. 633, 196 App. Div. 779, 1921; *British-American Tobacco Company, Ltd. v. British American Cigar Stores Co.*, 211 F. 933, C. C. A. 2, 1914; *Coca-Cola v. Brown & Allen*, 274 F. 481, D. C. 1921; *Horlick's Malted Milk Corp. v. Horluck's, Inc.*, 59 F. (2d) 13, C. C. A. 9, 1932; *Riggs Optical Co. v. Riggs*, 132 Nebr. 26, 270 N. W. 667, 1937; *Soft-Lite Lens Co. v. Ritholz*, 301 Ill. App. 100, 21 N.E. (2d) 835; *Folmer Graflex Corp. v. Graphic Photo Service*, 35 F. Supp. 963, D. C. Mass. 1940.

The unimportance of this difference in function performed in the industry, is perhaps best illustrated by the magazine and moving picture cases. Thus the names of fashion magazines, "Vogue" and "Seventeen," engaged in promoting and advertising women's and girls' clothing, may not be used as trademarks for these articles. In the moving picture case, the name



"Academy," of a moving picture institution, engaged in non-profit activities promoting the entire industry, was protected against a small and insignificant drama school.

(3) **Element of gratuity.**

The circumstance stressed by the District Judge that appellee's product is distributed to the general public gratis, is of no significance. In the *Academy* case (15 C. (2d) 685, 104 P. (2d) 650, 1940) the controversy was between a nonprofit institution and a commercial enterprise. In *Law v. Crist*, 41 C. A. (2d) 862, 107 P. (2d) 953 (1940), the controversy was between two religious organizations.

(4) **Descriptiveness of appellee's use of name.**

The authorities show that this factor also is immaterial. Thus, "Vogue" was descriptive of the hats, "Duro" the wall board, "Academy" of the drama school, "RCA" of the Rayon Corporation of America. Neither the authorities nor reason (*supra*, point 1. c.) affords basis for a distinction based upon descriptiveness. Whether descriptive or not, Dunnell wishes to use "Safe Way" as a name or mark to identify his goods.

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**CONCLUSION.**

In the light of the authorities, the decisions in the Patent Office, appellant's priority of use, the admitted secondary meaning of the name "Safe Way," and the similarity of product and business, the decision in

the District Court denying appellant control and protection of its own name and reputation is patently wrong. Moreover, the same result must be reached as a matter of common sense and entirely apart from precedent and analytical refinement. It is clear that the undiscerning public which associates the name "Safeway" with appellant in relation to a wide variety of goods, including paper toilet products, is likely to be confused if appellee uses the name "Safe Way" for his paper toilet product.

In defending this suit appellant seeks merely to retain control of its name and responsibility for its reputation. Surely this is a salutary objective; it is to the public interest to know what and whom "Safeway" means; it is to the public interest that plaintiff and defendant should each be free to build their own reputations. Appellant's name and reputation are of the greatest importance to it.

While appellee's infringement is small in itself, if it be allowed the door will be opened thereby to others.

The language of the Court in the *Stork* case is apt here.

"The appellant is not here seeking to have appellees mulcted in damages, nor is it striving to drive them out of business. It asks merely that its adversaries be compelled to desist from an unfair trade practice that threatens to 'nibble away,' 'whittle away,' or 'dilute' the value of its dearly-bought prestige.

"The appellant begs that the appellees with an 'infinity' of other names to choose from, divest themselves of plumage borrowed from the *Stork*.

“In a word, the appellant is making a plea peculiarly calculated to move the conscience of a chancellor. It prays not for a sword, but for a shield.” *Stork Restaurant, Inc. v. N. Sahati, et al.*, C. C. A. 9, 2-18-48.

With countless names to choose from it is submitted that both law and good morals require that appellee be not allowed to register or use as a trademark the name “Safe Way” which means appellant, and which appellant has built up by its dealing with the public over a period of many years.

Dated, San Francisco,

March 31, 1948.

Respectfully submitted,

MITCHELL T. NEFF,

WILLARD S. JOHNSTON,

ORRICK, DAHLQUIST, NEFF,

BROWN & HERRINGTON,

*Attorneys for Appellant.*

(Appendix Follows.)

## **Appendix.**



## Appendix

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Final Hearing  
April 25, 1945

HSM:LG

### IN THE United States Patent Office

Opposition No. 23,281

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Safeway Stores, Incorporated,

v.

Dunnell

Application No. 453,099, Filed May 19, 1942

Published March 21, 1944

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Toilet Seat Covers

---

Messrs. Mida, Richards & Murray for Safeway  
Stores, Incorporated.

Mr. Joseph F. Westall, and Messrs. Joseph W. Milburn and John R. Milburn for Warren W. Dunnell.

---

This is an opposition in which each of the parties has taken testimony and filed a brief. Only the opposer was represented at final hearing.

The allegations contained in the notice of opposition relate to only the name clause of section 5 of the Act



as a statutory ground for negating the right of registration claimed by the applicant.

Applicant seeks registration of the composite mark consisting of the notation "SAFEWAY" in a generally rectangular border together with a pictorial representation of a seat cover. The mark is applied to toilet seat covers and the representation of the goods is disclaimed apart from the mark.

It appears from opposer's testimony that opposer was incorporated under the name of Safeway Stores, Incorporated, on March 24, 1926. At first opposer sold no goods itself but the operations of the various grocery stores for the Safeway organization were carried on by subsidiaries wholly owned by the opposer. In August, 1941, operations were started in New York and New Jersey, and these were conducted by the opposer rather than through a subsidiary as had formerly been the case. Likewise in 1941 the business in the State of Utah was transferred to and operated by the opposer. Operations in Oklahoma and Arkansas were likewise transferred to the opposer shortly after the acquisition of the assets of the Utah business. Finally, on December 31, 1942, all of the business of the former subsidiaries was taken over by opposer and the entire operation of the various Safeway Stores has since been conducted solely by opposer. It appears, therefore, that prior to May 19, 1942, the date of filing of applicant's application herein, opposer was incorporated under the name of Safeway Stores, Incorporated, and was operating various grocery stores. This is deemed sufficient to entitle opposer

to intervene herein under the name clause without regard of any question of priority of use that might be raised. *Ariston, Inc., v. Michel & Pfeffer Iron Works, Inc.*, 566 O. G. 520; 166 Ms. Dec. 588; 62 U. S. P. Q. 503.

It is applicant's contention that opposer is not entitled to intervene herein by reason of laches. Applicant's testimony indicates that it adopted and has continuously used the notation "SAFEWAY" on toilet seat covers since 1933. Applicant urges that inasmuch as opposer has failed to protest against applicant's long use of this mark it is now barred from relief herein.

The validity of this contention is not apparent to the examiner. This proceeding is solely on the statutory question of applicant's right of registration and does not involve the question of its right of use. Obviously, opposer could not file an opposition to registration of a trade-mark until application for such registration had first been made. Opposer herein filed its opposition within the thirty-day period provided by the statute and that is all that is deemed to be necessary. Indeed, it has been held that even where an opposer has agreed that an applicant may use a mark such opposer is nevertheless not estopped to oppose registration of such mark. *Skookum Packers Association v. Pacific Northwest Can Company*, 403 O. G. 515, 18 C.C.P.A. 792, 45 Fed. (2d) 912.

In the present instance opposer's corporate name is Safeway Stores, Incorporated. Obviously, there-

fore, applicant's notation "SAFEWAY" is not a complete appropriation of such corporate name. In such cases the question to be determined involves consideration of whether under the facts confusion of persons is likely to occur. *American Steel Foundries v. Robertson*, 342 O. G. 711, 269 U. S. 372.

In the present instance applicant points out that the notation "SAFEWAY" is of common use in the language and that it forms the subject matter of several registrations issued to other parties. It is applicant's contention, therefore, that this word in and of itself cannot designate merely opposer, and that hence no confusion between the parties would be likely to occur.

The examiner would be inclined to agree with this contention if it were not for the fact that the goods dealt in by the parties are of such a similar nature. Opposer in its grocery stores sells various paper products such as toilet tissue, paper towels, and paper napkins. True, opposer does not sell toilet seat covers. However, it seems to the examiner that such products are very closely related to the paper products which opposer does sell and that the average consumer might reasonably suppose that a paper toilet seat cover sold under the notation "SAFEWAY" was sponsored and sold by the opposer. Indeed, it appears that applicant himself is of the opinion that his toilet seat covers might be readily carried and sold by opposer since he has approached opposer in an effort to have opposer sell his goods. Considering all the facts involved

herein, therefore, it is the examiner's opinion that in view of the nature of the goods confusion of persons and reputations is reasonably likely.

Accordingly, the notice of opposition is sustained, and it is further adjudged that applicant is not entitled to the registration for which he has made application.

Limit of appeal: June 9, 1945.

A. D. Bailey

Examiner of Interferences,  
Room 1310.

May 10, 1945.

Hearing:

January 23, 1946

*In the United States Patent Office*

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Safeway Stores, Incorporated

v.

Warren W. Dunnell

---

Appeal from Examiner of Interferences.

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Opposition No. 23,281 to registration of trade-mark of Warren W. Dunnell for toilet seat covers, application filed May 19, 1942, Serial No. 453,099, published March 21, 1944.

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Mida, Richards & Murray for Safeway Stores, Incorporated.

Joseph F. Westall and Joseph W. Milburn and John R. Milburn for Warren W. Dunnell.

This is an appeal from the decision of the examiner of interferences sustaining the opposition of Safeway Stores, Incorporated, to the application of Warren W. Dunnell for registration of a trade mark for "toilet seat covers".

Applicant's mark is essentially the notation "Safe Way". The opposition was sustained on the ground

that the mark constitutes a substantial appropriation of opposer's corporate name.

In *Safeway Stores, Incorporated v. Safeway Opticians, Inc.*, 584 O. G. 498, 69 U. S. P. Q. 332, decided since the appeal in the instant case was argued, I found that:

Op. 23,281

“While ‘Safeway’ is not opposer’s complete corporate name, it has nevertheless become so identified with opposer that it designates opposer to the mind of the public in the same manner, albeit to be a lesser degree, as do the letters ‘RCA’ designate Radio Corporation of America.”

Accordingly, on authority of *Radio Corporation of America v. Rayon Corporation of America*, 31 C.C. P.A. 808, 139 Fed. (2d) 833, I hold the word non-registrable. And if “Safeway” is nonregistrable, so of course is “Safe Way”. *White Cap Co. v. Allied Stores Corporation*, 503 O. G. 870, 41 U.S.P.Q. 554.

As stated in the *Safeway Opticians* case, and as shown by the evidence here:

“Opposer operates a chain of more than two thousand grocery stores, which are scattered through half the States of the Union. In them it sells not only groceries, but all such more or less related items as the public demands. It has been in business for many years, and has come to be widely known merely as ‘Safeway’. In fact, it has almost invariably used that word alone as its name. And while it may not be as universally recognized as is Radio Corporation of America,



its customers constitute a very considerable portion of the American public".

In that case, as in this, opposer was not dealing in the particular merchandise for which registration was sought; but that fact was held to be immaterial. Moreover, as pointed out by the examiner of interferences, opposer does sell such paper products as toilet tissue and paper towels, which are clearly of the same descriptive properties as applicant's paper toilet seat covers.

Applicant has been using his mark since the fall of 1933, and his sales have steadily increased. He thus argues that because opposer must have had knowledge of such use, it is estopped by laches to maintain this proceeding. Referring to the examiner's observation that "opposer could not file an opposition to registration of a trade mark until application for such registration had first been made," applicant says:

"Certainly opposer could not file an opposition until applicant requested registration, but during the many years during which applicant had maintained an impregnable title to the name 'Safe Way' as applied to toilet seat covers, if opposer had been injured in any way, opposer should have instituted an unfair competition suit."

But surely its failure to sue did not deprive opposer of the statutory right to oppose the registration of its name as a trade mark. Presumably, opposer did not object to applicant's use of the mark but the proposed registration of its name as a trade mark.

Presumably, opposer did not object to applicant's use of the mark; but the proposed registration would be prima facie evidence of applicant's exclusive ownership of the term "Safe Way", not only as applied to toilet seat covers, but as applied to all other goods of the same class. It seems to me that if there has been laches, applicant is the guilty party. If he intended to register his trade mark he should have done so, as he might have done, before the word "Safe-way", through extensive advertising, had come to be regarded by the public as merely opposer's corporation name.

The decision of the examiner of interferences is affirmed.

First Assistant Commissioner.

April 24, 1946.



No. 11,806

IN THE

United States Circuit Court of Appeals  
For the Ninth Circuit

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SAFEWAY STORES, INCORPORATED,  
a Corporation,

*Appellant,*

vs.

WARREN W. DUNNELL,

*Appellee.*

APPELLANT'S REPLY BRIEF.

---

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FILED

MAY - 3 1940

PAUL P. O'BRIEN,

CLERK



## Subject Index

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	Page
1. Appellee's use of the name is likely to cause public confusion .....	2
a. Appellee's claim that he uses the name "Safe Way" only in conjunction with his firm name "Sani-Gard Sales Company" (appellee's br. pp. 4-5) .....	2
b. Appellee's claim that his product is dissimilar to appellant's products (appellee's br. pp. 5, 9, 12-18, 26-29) .....	2
c. Appellee's claim that appellant's reputation is not based upon the name "Safeway" but upon nationally advertised brands carried by it (appellee's br. pp. 6, 21) .....	4
d. Appellee's claim that appellant is barred from relief by an asserted absence of actual confusion (appellee's br. pp. 7, 9-10, 18, 29) .....	5
e. Appellee's claim that he has a good reputation and that appellant could only be benefited, not damaged, by appellee's use of the name "Safe Way" (appellee's br. pp. 22-23, 6) .....	5
f. Appellee's claim that any confusion resulting from his use of the name "Safe Way" is not remediable (appellee's br. pp. 22-23) .....	6
g. Appellee's claim that extensive use of the name "Safe Way" by others bars appellant (appellee's br. pp. 23-25, 5-6, 8) .....	8
2. Appellant is not barred by laches .....	11
Conclusion .....	13



# Table of Authorities Cited

Cases	Pages
Academy of Motion Picture Arts & Sciences v. Benson, 15 C. (2d) 685 at 689, 104 P. (2d) 650 (1940) .....	6, 9
American Steel Foundries v. Robertson, 269 U. S. 372, 70 L. Ed. 317, 46 S. Ct. 160 (1926) .....	8
Ariston, Inc. v. Michel Pfeffer Iron Works, 62 U.S.P.Q., 503	12
Bill's Gay Nineties v. Fisher, 41 N.Y.S. (2d) 234 (1943)...	8
Brooks Bros. v. Brooks Clothing of Cal., 60 F. Supp. 442, 458, 462 (S.D. Cal. 1945) .....	12
Ford Motor Co. v. Insecticide Corp., 69 F. Supp. 935, 937 (E.D. Mich. 1947) .....	10
Garrett & Co. Inc. v. Gray, 49 U.S.P.Q. 569 (1941).....	6
Great Atlantic & Pacific Tea Co. v. A. & P. Cleaners & Dyers, Inc., 10 F. Supp. 450-451 (W.D. Pa. 1934).....	12
Great Atlantic & Pacific Tea Stores v. A. & P. Radio Stores, Inc., 20 F. Supp. 703, 706 (E.D. Pa. 1937).....	10
Hall v. Holstrom, 106 C. A. 563, 570-571, 289 P. 668 (1930)	12
Morgan v. Daniels, 153 U. S. 120, 14 S. Ct. 772 at 774, 38 L. Ed. 657 (1894) .....	11
Phillips v. The Governor & Co. of Adventurers of England Trading Into Hudson's Bay, 79 F. (2d) 971 (C.C.A. 9, 1935) .....	8
Radio Corporation of America v. Rayon Corp. of America, 139 F. (2d) 833, 837 (C.C.P.A. 1943).....	10
Safeway Stores, Incorporated v. Safeway Opticians, Inc., 68 U.S.P.Q. 332, 584 O. G. 498.....	9, 10
Southern Independent Oil & Refining Co. v. Safeway Stores, Incorporated, 48 U.S.P.Q. 220 .....	9
Stork Restaurant v. N. Sahati, et al., 166 F. (2d) 348, 363 C.C.A. 9, 1948) .....	6, 8, 12
Sweet Sixteen Co. v. Sweet "16" Shop, Inc., 15 F. (2d) 920 (C.C.A. 8, 1926) .....	8
Winfield v. Charles, 77 C. A. (2d) 64, 70, 175 P. (2d) 69 (1946) .....	6
Yale Electric Corp. v. Robertson, 26 F. (2d) 972 at 974 (C.C.A. 2, 1928) .....	6, 12

## Texts

Restatement of Law, Torts, pp. 597-598.....	6
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No. 11,806

IN THE

# United States Circuit Court of Appeals

For the Ninth Circuit

---

SAFEWAY STORES, INCORPORATED,  
a Corporation,

vs.

WARREN W. DUNNELL,

*Appellant,*

*Appellee.*

## APPELLANT'S REPLY BRIEF.

---

Appellee fails to point out the intended bearing of many of the assertions in his brief. They appear in the main, however, to be directed towards an attempted showing, first, that the use of the name "Safe Way" by appellee is not likely to cause public confusion and, second, that appellant is guilty of laches. We will show under each of these main points that appellee's assertions are without merit.

1. APPELLEE'S USE OF THE NAME IS LIKELY TO  
CAUSE PUBLIC CONFUSION.

- a. Appellee's claim that he uses the name "Safe Way" only in conjunction with his firm name "Sani-Gard Sales Company" (Appellee's Br. pp. 4-5).

This contention—withstanding appellee's assertion that it is "uncontradicted" (Appellee's Br. p. 3)—is contrary to the undisputed evidence reviewed, documented and, in part, photographically reproduced in appellant's opening brief (pp. 13-14).

It should be emphasized that appellee's product is distributed *to the public* in public lavatories under the name "Safe Way" without the name "Sani Gard" or any indication of source (Ex. V, Tr. 156). It is this use—the distribution to the public under a name substantially like that of appellant—which is most likely to cause public confusion and to injure appellant. It is the trademark "Safe Way" without any other words which appellee seeks to have registered (Tr. 190, 188, 191). The likelihood of confusion is not minimized by the circumstance that appellee's firm name may appear on shipping cartons and the like which the public does not see.

- b. Appellee's claim that his product is dissimilar to appellant's products (Appellee's Br. pp. 5, 9, 12-18, 26-29).

Appellee's only concession in this regard is that both parties' products are made of paper; he denies, but in no wise refutes the various other points of similarity in use, purpose and association brought out in appellant's opening brief (pp. 23-24). Appellee seems to argue that the test of similarity should be whether "an ordinary member of the buying public would come to

the conclusion that they [the products of the contesting parties] emanate from the same source of origin" (Appellee's Br. p. 29). That test is met here. The Patent Officers found that appellee's product is "very closely related to the paper products which opposer [appellant] does sell and that the average consumer might reasonably suppose that a paper toilet seat cover sold under the notation 'Safe Way' was sponsored and sold by the opposer [appellant]."

Appellee argues at length that paper seat covers are not suitable for distribution in retail stores (Appellee's Br. pp. 5, 12-18) and that in this particular they are dissimilar to appellant's paper products. This contention—also asserted by appellee to be uncontradicted (Appellee's Br. p. 5)—is likewise contrary to the undisputed evidence reviewed and documented in our opening brief (pp. 15-16). Mr. Crebs of the Consolidated Cover Company gave uncontradicted testimony that since 1926 his company had produced a Travel Aid packet of toilet seat covers for resale in stores (Tr. 158-159); in addition, appellee Dunnell himself has put out a similar product for resale in stores (Ex. R, photographically reproduced at p. 15 of Appellant's Opening Brief).

Appellee makes much of appellant's rejection of his studied and insincere solicitation to appellant to carry appellee's seat covers<sup>1</sup> (Appellee's Br. pp. 12-13). The Court will observe that appellant's unsuspecting representative did not reject the seat covers as unsuitable but simply stated "that up to the present time we

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<sup>1</sup>Termed by appellee "a piece of 'detective work'" (Appellee's Br. p. 14).

have not approved of such an item for resale in our stores.” (id.). He pointed out that this “policy” may “change \* \* \* in the future.” (id.).

We have at all times conceded the point, so thoroughly (but so unnecessarily) argued by appellee, that appellant does not carry seat covers (Appellee’s Br. pp. 12-15, 20, 6). But this does not establish that seat covers are not suitable for store sale. Moreover, even if they were not suitable, that is no answer to appellant’s case, which is grounded on the proposition that it sells toilet tissue, paper towels, paper cups, sanitary napkins and other paper products very similar to paper seat covers in purpose and use. In short, both parties deal in paper products used as an aid to personal hygiene. In this very real sense the parties’ products are one and the same, not merely similar.

**c. Appellee’s claim that appellant’s reputation is not based upon the name “Safeway” but upon nationally advertised brands carried by it (Appellee’s Br. pp. 6, 21).**

The District Judge, as well as the patent office, found to the contrary that “the general public identifies these stores under the name ‘Safeway’ ” (Tr. 42). Moreover, as pointed out in our opening brief (p. 12), appellant does sell important products under the name “Safeway.”

Even if there were factual support for appellee’s point, it is of no legal significance. All products sold by appellant—even those bearing another well-known trademark—are sold also as “Safeway” products and are vouched for by appellant; their quality and reputation directly affect appellant’s reputation and ap-



pellant's reputation and business practices affect their quality and reputation. The name "Safeway" is closely and immediately related to appellant's entire business and the use by appellee Dunnell of the name on products closely allied to those dealt in by appellant cannot but lead to public confusion.

- d. Appellee's claim that appellant is barred from relief by an asserted absence of actual confusion (Appellee's Br. pp. 7, 9-10, 18, 29).**

This contention is based upon testimony of appellee Dunnell that no instances of confusion have ever come to his attention. This self-serving testimony has little probative effect and does not appear to have been given weight by either the fact-finding administrative experts in the patent office or by the District Judge.

Moreover, it is not significant that cases of confusion have not come to light. As stated in our opening brief (pp. 25-26), a member of the public, knowing appellant as "Safeway", would without query, associate appellee's "Safe Way" product with appellant.

And as we have shown at length in our opening brief, the test under both statute and cases is not confusion but likelihood of confusion.

- e. Appellee's claim that he has a good reputation and that appellant could only be benefited, not damaged, by appellee's use of the name "Safe Way" (Appellee's Br. pp. 22-23, 6).**

It is apparent that appellee Dunnell has missed the point of appellant's assertion which is not that appellee is diverting sales from appellant to himself but



rather that appellee by appropriating appellant's name is appropriating its reputation.

"However, it has of recent years been recognized that a merchant may have a sufficient economic interest in the use of his mark outside the field of his own exploitation to justify interposition by a court. His mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. *If another uses it, he borrows the owner's reputation, whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator, and another can use it only as a mask.* And so it has come to be recognized that, unless the borrower's use is so foreign to the owner's as to insure against any identification of the two, it is unlawful." (Judge Learned Hand in *Yale Elec. Corp. v. Robertson* (C.A.A. 2, 1928), 26 F. 2d 972 at 974). (Emphasis ours).

See also: *Restatement of Law, Torts*, pp. 597-598; *Stork Restaurant v. N. Sahati, et al.*, (C.C.A. 9, 1948), 166 F. (2d) 348 at 363; *Academy of Motion Picture Arts & Sciences v. Benson*, 15 C. (2d) 685 at 689, 104 P. (2d) 650 (1940); *Winfield v. Charles*, 77 C. A. (2d) 64, 70, 175 P. (2d) 69 (1946).

- f. Appellee's claim that any confusion resulting from his use of the name "Safe Way" is not remediable (Appellee's Br. pp. 22-23).

Appellee relies upon *Garrett & Co., Inc. v. Gray*, 49 U.S.P.Q. 569 (1941), for this proposition. That case held simply that any possible confusion was not

remediable under the old trade mark statute since the goods (dolls) of the applicant for registration of the name "Virginia Dare" and the goods (wine) of the opposer were not similar, as required by the statutory section involved. The case is not in point for several reasons:

(1) In our case the goods of opposer (appellant) and the applicant for registration (appellee) are very similar.

(2) Under the new Trademark Act (the Lanham Act), the "Virginia Dare" case is of doubtful validity since similarity of goods is not the test (see Appellant's Opening Br., pp. 32-34).

(3) The *Virginia Dare* case is clearly without significance so far as appellant's counterclaim (based upon the principles of unfair competition) is concerned since, for relief, goods need not be competitive (see Appellant's Opening Br., pp. 36-48).

(4) The *Virginia Dare* case did not involve the name clause of the old Trademark Act, the provision here involved (Appellant's Opening Br., p. 29 et seq.). It is settled that likelihood of confusion is the sole criterion under the name clause, similarity of product being material only as one factor bearing on likelihood of confusion (Appellant's Opening Br., pp. 29-32).

g. Appellee's claim that extensive use of the name "Safe Way" by others bars appellant (Appellee's Br. pp. 23-25, 5-6, 8).

This point which is also set forth by the District Judge as a conclusion of law (VI, Tr. 47) apparently proceeds upon the theory that the word "Safeway", is commonplace, cannot mean appellant and, that therefore, there is no likelihood of confusion.

That a name or term may be commonplace does not prevent it from acquiring a secondary meaning and does not preclude protection. (*Phillips v. The Governor & Co. of Adventurers of England Trading into Hudson's Bay*, 79 F. (2d) 971 (C.C.A. 9, 1935); *Academy of Motion Picture Arts & Sciences v. Benson*, 15 C. (2d) 685 (1940); *Sweet Sixteen Co. v. Sweet "16" Shop, Inc.*, 15 F. (2d) 920 (C.C.A. 8, 1926); *Bill's Gay Nineties v. Fisher*, 41 N.Y.S. (2d) 234 (1943); *Stork Restaurant v. N. Sahati, et al.*, 166 F. (2d) 348 (C.C.A. 9, 1948). These cases protected, respectively, the commonplace terms "Hudson Bay", "The Academy", "Sweet Sixteen", "Gay Nineties" and "Stork", since each had required a secondary meaning in connection with a particular business. Whether a name has acquired a secondary meaning is a question of fact. That question of fact has been determined in the case at bar in favor of appellant, Safeway Stores, Incorporated, by the District Judge (Tr. 42) as well as the patent officers. That the name is commonplace may make it difficult to invest it with a secondary meaning; but that difficulty does not negative the existence of the secondary meaning, once acquired. All that *American Steel Foundries v.*

*Robertson*, 269 U. S. 372, 70 L. Ed. 317, 46 S. Ct. 160 (1926) (relied upon by appellee (Appellee's Br., p. 24)) decided was that the word "Simplex" did not have the requisite secondary meaning. Here the contrary is the case. *Southern Independent Oil & Refining Co. v. Safeway Stores, Incorporated*, 48 U.S.P.Q. 220, also relied upon by appellee (Appellee's Br., p. 23) in which the patent commissioner decided that the sale of gasoline under the name "Safeway" was not likely to confuse the public to the injury of Safeway Stores, Incorporated, was, in effect, overruled by the commissioner in *Safeway Stores, Incorporated v. Safeway Opticians, Inc.*, 68 U.S.P.Q. 332 (1946). "\* \* \* insofar as it [the *Southern Oil* case] may be in conflict with the 'RCA' case, supra, it must be regarded as overruled by necessary implication." (p. 333.)

"Safeway", moreover, is not commonplace; it is a coined term of fanciful character not to be found in the dictionary. It is well known, but not "commonplace", solely because of extensive and long continued use and advertising by appellant.

The uses of the name "Safeway" by others, relied upon by appellee, appear in large measure to have been the use of the name by appellant's subsidiaries prior to 1942 (Appellee's Br. p. 25). Appellant has succeeded to their assets and goodwill and asserts their rights in this litigation. Their use of the name is the basis for, and cannot possibly impair, appellant's rights. A similar contention relative to the subsidiaries of RCA was expressly rejected in *Radio*



*Corporation of America v. Rayon Corp. of America*, 139 F. (2d) 833, 837 (C.C.P.A. 1943).

In addition to the use of the name by appellant's subsidiaries, appellee Dunnell emphasizes the Patent Office registration of the name by others (Appellee's Br. p. 25). The uncontradicted evidence shows that appellant first became aware in about 1938 of these registrations of the name "Safeway" by others (Tr. 122-123); that since that time appellant has consistently opposed such registrations (Tr. 123), and that the cases in which these registrations were granted were finally overruled in 1944 in the *Safeway Opticians* case, 68 U.S.P.Q. 332, 584 O.G. 498, cited and relied upon by the Assistant Commissioner of Patents in his decision in the case at bar (Appendix to Appellant's Opening Br. vii).

In any case, mere registration of a name in the Patent Office does not show extensive public use.

There is some suggestion in Appellee's Brief that the use of the name "Safeway" by others is of itself an answer to appellant's claims in this litigation. This suggestion is without merit. It is established that use by others is no justification for appellee's wrongful use. *Ford Motor Co. v. Insecticide Corp.*, 69 F. Supp. 935, 937 (E. D. Mich. 1947); *Great Atlantic & Pacific Tea Stores v. A. & P. Radio Stores, Inc.*, 20 F. Supp. 703, 706 (E.D. Pa. 1937). In the latter case the Court states at page 706:

"\* \* \* But regardless of this it is obviously no excuse for the defendant's conduct to say that others have been guilty of the same wrong. Nor

is the question here whether the plaintiff has an exclusive right, but rather whether to the public 'A&P' means the plaintiff."

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We submit that appellee's arguments designed to show that there is no likelihood of confusion are without merit and that appellee Dunnell has failed to answer at all the point emphasized by the Patent Officers and by our opening brief that there is likelihood of confusion, since the name "Safeway" means appellant, Safeway Stores, Incorporated, and since there are so many apparent and practical similarities of product. Even if the likelihood of confusion were not clear, "if doubtful, the decision of the Patent Office must control." *Morgan v. Daniels*, 153 U. S. 120, 14 S. Ct. 772 at 774, 38 L. Ed. 657 (1894), discussed Appellant's Brief (pp. 19-20).

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## 2. APPELLANT IS NOT BARRED BY LACHES.

The Patent Officers expressly found against the claim of laches (Appendix, Appellant's Opening Br., iii, viii, ix). Moreover, the District Judge, by making no finding or conclusion relative to appellee's affirmative assertion of laches, impliedly found and determined that there were none. His opinion (75 F. Supp. 900) plainly shows that he did not decide the case in favor of appellee by reason of this asserted defense.

Patently, appellant's defense to the registration cannot be barred by laches, since the defense could not



be asserted by appellant until appellee had applied for registration. See decisions of Patent Officers.

And as to appellant's counterclaim, it is established that "in a case of this type [unfair competition where only injunctive relief is sought] laches is no defense." *Stork Restaurant v. N. Sahati, et al.*, 166 F. (2d) 348, 363 (C.C.A. 9, 1948); *Hall v. Holstrom*, 106 C.A. 563, 570-571, (289 P. 668 (1930)); *Brooks Bros. v. Brooks Clothing of Cal.*, 60 F. Supp., 442, 458, 462, (S.D. Cal. 1945); *Great Atlantic & Pacific Tea Co. v. A. & P. Cleaners & Dyers, Inc.*, 10 F. Supp. 450-451, (W.D. Pa. 1934); *Yale Electric Corp. v. Robertson*, 26 F. (2d) 972, (C.C.A. 2, 1928).<sup>2</sup>

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<sup>2</sup>The foregoing abbreviated treatment of appellee's claim of laches is not at all an admission of the extravagant factual charges made in its brief. We emphasize, particularly, that appellant did not know of appellee's use of the name until appellee sought to register the name (Tr. 252). Thereupon, appellant promptly asserted its rights (Tr. 193-194). Appellee's claim that appellant must be deemed to have had notice by reason of the volume of appellee's business in California, said to aggregate "44,000,000 seat covers" during the 8 year period from 1933 through 1941 (Appellee's Br. p. 34), is without merit. From 8000 to 10,000 covers pass through a single dispensing cabinet each year (Tr., 158). Each dispensing cabinet serves but a single toilet.  $44,000,000 \div 8 \times 8000 = 688$  public lavatories served by appellee. Actually, this figure of 688 is greatly exaggerated since most public lavatories (apart from service stations) have three or more separate toilets. It is apparent that the less than 700 public lavatories allegedly served by appellee is an insignificant number of the public lavatories in the office buildings, factories, public buildings and thousands of other public rest rooms in California. Surely it is not surprising that appellant did not learn thereof. This small volume also explains further why instances of public confusion would not have come to light. See supra, point 1-d.

Nor do we concede at all the numerous captious and irrelevant arguments to which specific reply has not been made. For example, the argument at pages 30-33 of appellee's brief is both irrelevant and is based upon a misreading of the Examiner's decision. The examiner did not cite the *Ariston* case for the proposition

### CONCLUSION.

The Court will have observed that appellee has failed to reply at all to our contention that the doctrine of administrative finality should be applied to reinstate the Patent Office decisions (Appellant's Opening Br., pp. 17-27). Appellee has merely argued that there was certain evidence that would have justified a decision by the Patent Officers contrary to that reached by them. Even if this argument were valid it would remain true that there is ample evidence to support the findings and decisions in the Patent Office. Appellee does not even suggest that there was new, different and compelling evidence before the District Judge. He bases his claim solely upon "the evidence taken in the Patent Office" (Appellee's Br., p. 2). The Patent Office decision must be affirmed.

Moreover, as shown above, there is no merit in appellee's arguments that there was evidence in the Patent Office that would have justified a decision different from the one there made. The meaning of the name "Safeway" as "Safeway Stores, Incorporated" and the similarity of product, together, compel a finding of likelihood of confusion.

The decision we seek will not harm appellee who will remain free to develop his business and product under the name "Sani-Gard" (with which he asserts

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that all that is necessary for an opposer to prevail under the name clause is that it be in existence, but rather for the proposition that such existence gives the opposer standing to intervene. His decision on the merits was predicated entirely not upon a mere finding of appellant's corporate existence but upon a determination of likelihood of confusion under principles akin to those upon which the law of unfair competition is based.

his goodwill is connected) or countless other names. Such a decision will leave each party free to develop and control its own business and reputation without interference from the other.

Dated, San Francisco,  
May 3, 1948.

Respectfully submitted.

MITCHELL T. NEFF,  
WILLARD S. JOHNSTON,  
ORRICK, DAHLQUIST, NEFF  
& HERRINGTON,  
*Attorneys for Appellant.*

No. 11806

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

SAFEWAY STORES, INC., a corporation,

*Appellant,*

*vs.*

WARREN W. DUNNELL,

*Appellee.*

---

## PETITION FOR REHEARING.

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WESTALL AND WESTALL,

JOSEPH F. WESTALL,

EDWARD F. WESTALL,

Suite 702—608 South Hill Street, Los Angeles 14,

*Attorneys for Petitioner.*

**FILED**

FEB 5 1949



## TOPICAL INDEX

	PAGE
There is not a shadow of authority under the law for the Court's decision at the end of the opinion directing the District Court to render a permanent injunction against the use by Dunnell of his trade-mark. On the contrary, the law is distinctly that the Court has no such authority as we proceed to point out....	1
As to how Dunnell acquired his trade-mark.....	2
In the light of the immediately foregoing stated facts appellee Dunnell's title to the trade-mark Safeway as applied to toilet seat covers is unassailable.....	3
Appellee Dunnell's title to said trade-mark, as so applied is not in issue in the opposition proceeding, nor in this de novo suit. It is not and could not be attacked either before the Patent Office on the record therein, or before this Court.....	3
There is no evidence in the record prejudicial to the entire good faith of Dunnell in adopting and using his trade-mark. On the contrary, the evidence shows nothing but the best of faith and fairness on the part of Dunnell on adopting and using said trade-mark .....	8
Defendants' appellants waiver of damages, its failure to even attempt to prove any damages whatsoever, not only defeats this Court's jurisdiction on the counter-claim, but also annihilates jurisdiction on matters opposing Federal registration—and entitles Dunnell to the order of this Court authorizing the Commissioner to grant such registration.....	11
The trial before the District Court, from whose decision appeal was taken is de novo, and the findings and conclusions of the lower court, unless shown to be erroneous, should be followed—not the findings and conclusions of the Patent Office tribunals .....	16



## ii.

### PAGE

If we had appealed to the Court of Customs and Patent Appeals from the decision of the Patent Office, of course, the findings and conclusions of the Patent Office would have been properly and specifically reviewed; but we did not take that course; on the contrary, we instituted an action requiring a trial de novo. Obviously, on such trial de novo the findings and conclusions of the trial court are those to which this Court should specifically give its attention.....	18
We now again emphasize that on such trial de novo it is the findings and conclusions of the trial court which are controlling, if not shown to be erroneous, certainly not any of the findings or conclusions of the Patent Office.....	18
We have repeatedly urged that damages are of the gravamen in an opposition, and of course, the same rule applies in this trial de novo. The Patent Office has consistently always required proof of some damages to sustain an opposition.....	19
Appellant Safeway Stores, Inc., has been guilty of inexcusable laches which should estop said appellant from now prosecuting the opposition to Dunnell's registration.....	23
There are a few miscellaneous points to which we desire to call the Court's attention—some of them entirely overlooked in this Court's opinion.....	25
The contention that Morton Company registered the word "Safeway" as applied to cabinets is irrelevant. Furthermore, the trade-mark is admittedly the property of Dunnell.....	29
Dunnell's covers in issue are patented. Opposer Safeway Stores, Inc., could not manufacture and sell Dunnell's said covers without infringing said patent; no more than they could use this trade-mark as such without infringing said trade-mark, under the common law in force in every state of the Union.....	32
Conclusion .....	33

### iii.

## TABLE OF AUTHORITIES CITED

CASES	PAGE
American Steel Foundries v. Robertson, 262 U. S. 209 (Sec. 89, Title 15, U.S. Code, applies to trade-mark-following R.S.U.S. 4915 as to patents).....	22-26
Arrow Distilleries, Inc. v. The Globe Brewing Co., 48 U.S.P.Q. 157, C.C.A., 4th Circuit (the word has been used so many times in so many different ways that it is no more calculated to denote defendant corporation than other corporations).....	26
Century Distilling Co. v. Continental Distilling Corp., 23 Fed. Sup. 705; 38 U.S.P.Q. 105 (Title 15, Sec. 89, applies to trade-marks as well as patents).....	17
Electro-Therapy Products Corp. v. Strong, 84 Fed. (2d) 766 (court has no jurisdiction on counterclaim).....	5
Furmine v. West Jersey and Seashore R. Co., 44 Fed. (2d) 614 (amount necessary to be proven to sustain jurisdiction of Federal Court) .....	7
McNutt v. General Motors, 298 U.S. 178 (jurisdiction amount must be proven to sustain jurisdiction).....	7
McNutt v. McHenry, etc., 298 U.S. 190 (amount necessary to be proven to sustain jurisdiction of Federal Court).....	7
Miller v. First Service Corp., 84 Fed. (2d) 680 (Court has no jurisdiction in absence of proof of \$3,000, etc.).....	7
New York Life Insurance Co. v. Johnson, 255 F. 958, 167 C.C.A. 250 (absence of proof of jurisdiction amount defeats jurisdiction) .....	7
Safeway Stores, Inc. v. Southern Independent Oil & Refining Co., 48 U.S.P.Q. 220 (Safe-way is an expression of such common-place significance that its use with other unrelated products in no way damages opposer).....	19

#### iv.

	PAGE
Tetters v. Henton, 43 Fed. (2d) 175 (amount necessary to be proven to sustain jurisdiction of counterclaim).....	7
Wilderman v. Roth, 9 Fed. (2d) 637 (jurisdictional amount of \$3,000 exclusive of interest and costs necessary to be proven affirmed C.C.A., 3rd Circuit, 17 Fed. (2d) 486).....	6

#### STATUTES

Sec. 41—Judicial Code, Sec. 24 as amended—(no jurisdiction of counterclaim) .....	2
California Business and Professions Code, Sec. 14,400 (trade-mark acquired by adoption and use).....	3
R.S.U.S. 4915, U.S. Code, Title 35, Sec. 63 (trial is de novo), Title 15, Sec. 89, U.S. Code (applied to trade-marks as well as patents) .....	16, 17

#### TEXTBOOKS

Trade-Mark Protection and Unfair Trading (Derenburg) (rights of trade-mark only conferred by common law).....	2
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No. 11806

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

SAFEWAY STORES, INC., a corporation,

*Appellant,*

*vs.*

WARREN W. DUNNELL,

*Appellee.*


---

## PETITION FOR REHEARING.

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Now comes the above-named appellee by Westall and Westall, his attorneys, and, under Rule 25 of this Court, files this, his petition for rehearing of the decision of the Court rendered January 11, 1949, on the following grounds:

There Is Not a Shadow of Authority Under the Law for the Court's Decision at the End of the Opinion Directing the District Court to Render a Permanent Injunction Against the Use by Dunnell

of His Trade-Mark  . On the Contrary, the Law Is Distinctly That the Court Has No Such Authority, as We Proceed to Point Out.

The only basis for this Court's jurisdiction upon which appellant, Safeway Stores', counterclaim is based is §41

(Judicial Code, §24, amended) Original Jurisdiction, reading so far as pertinent as follows:

"The District Court shall have original jurisdiction as follows: First of all suits of a civil nature (1) \* \* \*; at common law or in equity \* \* \*, where the matter in controversy exceeds, exclusive of interest and costs, the sum or value of \$3,000.00 and, (a) arises under the Constitution or laws of the United States \* \* \*."

Preliminarily to further application of the law just quoted:

### **As to How Dunnell Acquired His Trade-Mark.**

In Trade-Mark Protection and Unfair Trading by Derenburg (Matthew Bender and Co., Inc., 1936), page 503, Section 46, the author says:

"The question of what is requisite for the acquisition of a common law trade-mark, independent of federal or state registration, has not caused the Courts much trouble, since the application of the principle of priority of adoption and use has not been the source of any particular legal difficulty."

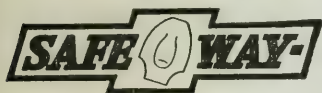
Dunnell testified [Tr. 144] that he first adopted and used the trade-mark Safeway for toilet seat covers in October, 1933; and in Exhibit Q [Tr. 337], to Dunnell's deposition in evidence it is shown that beginning in 1934 he sold 510,000 seat covers under said name in California alone; also a great many more in 1934 in many other states as shown by said Exhibit Q, and that in 1935 he sold 1,630,000 in California alone; and many more in many other states in the Union, and that in 1936 he sold 5,252,000 under said trade-mark in California alone; and many more in many other states; and that in 1937 he sold 5,-

879,000 covers under said trade-mark in California alone; also many more in many other states. The other states indicated in Exhibit Q are Oregon, Washington, Idaho, Nevada, Utah, Arizona, Illinois, Hawaii, Texas, Colorado, New Mexico, Kansas and Arkansas.

**In the Light of the Immediately Foregoing Stated Facts Appellee Dunnell's Title to the Trade-Mark Safeway as Applied to Toilet Seat Covers Is Unassailable.**

**Appellee Dunnell's Title to Said Trade-Mark, as so Applied Is Not in Issue in the Opposition Proceeding, nor in This De Novo Suit. It Is Not and Could Not Be Attacked Either Before the Patent Office on the Record Therein, or Before This Court.**

WE ARE SPEAKING OF TITLE TO THE TRADE-MARK



AS SUCH. IT IS A PROPERTY

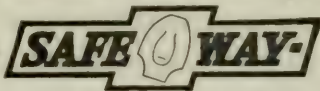
RIGHT, TITLE AND RIGHT TO USE BEING RECOGNIZED BY THE COMMON LAW IN FORCE IN THE STATE OF CALIFORNIA AS WELL AS BY CALIFORNIA STATUTORY ENACTMENTS.

Thus, in Business and Professions Code of California, §14400 reads as follows:

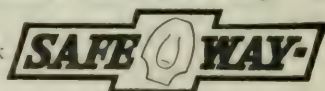
“§14400 Ownership. Any person who has adopted and used a trade-mark either within or beyond the limits of this state, is its original owner.”

Dunnell *did* adopt and use his trade-mark Safeway, and therefore is owner and entitled to all the rights of ownership in this state.



It is, perhaps, irrelevant to state that appellee Dunnell has its trade-mark  as applied

to seat covers, registered not only in California but in many states: But, *it is pertinent* to say, that the law of California as above quoted is distinctly that he has a property right in his trade-mark whether first adopted and used in any other state or in this state, *and whether registered or not.*

We remind again, that in the present trial *de novo* as well as in prior proceedings or opposition in the Patent Office NO QUESTION as to Dunnell's title, ownership and right to use his said trade-mark 

was, or could have been raised: Said proceedings raised only the question of whether or not, Dunnell, concededly having title and possession of the trade-mark, WAS ENTITLED TO FEDERAL REGISTRATION.

It seems to us, therefore, very clear from the foregoing that this Court had no authority under the law to enjoin Dunnell from using his said trade-mark—depriving him of title, possession, and right to use and of such rights expressly recognized as his by the laws of the state of California.

But getting back again specifically to the Court's lack of jurisdiction; remember that appellant Safeway Stores, NEVER CLAIMED ANY TRADE-MARK as such in the name "Safeway," as applied to anything, much less to toilet seat covers.

The basis in the pleading of appellant Safeway Stores, is in Paragraph 1 of its counterclaim [Tr. 18] which reads:

“1. Counterclaimant, Safeway Stores, Incorporated, is a corporation organized and existing under and by virtue of the laws of the State of Maryland, and is a citizen of the State. The matter in controversy exceeds the sum of Three Thousand Dollars [16] (\$3,000.00) exclusive of interest and costs.”

The immediately foregoing quoted jurisdictional pleading is denied by appellee Dunnell at Tr. 26, Paragraph V of his answer to said counterclaim, as follows:

“In answer to paragraph 1 of said counterclaim, plaintiff admits that defendant, counterclaimant, is a corporation organized and existing under and by virtue of the laws of the state of Maryland, and is a citizen of said state; but denies that the matter in controversy in this suit exceeds the sum of Three Thousand Dollars (\$3,000) exclusive of interest and costs, or any other sum whatsoever.”

Now, it is quite elementary that an allegation of \$3,000.00 exclusive of interest and costs involved while it preliminarily seems to confer jurisdiction, does not SUSTAIN jurisdiction: Manifestly, if it appears on trial of the case that no amount or recovery whatsoever is or could be involved, the action must be dismissed.

In support of the foregoing statement of the law, we first cite the decision of this Court of Appeals, rendered July 20, 1936, by Circuit Judges, Wilbur, Denman, and Matthews, in the case entitled *Electro-Therapy Products Corporation v. Strong et al.*, reported 84 F. 2d 766. The opinion is short and the syllabus is practically a copy of the Court's wording. The syllabus reads as follows:

“1. Circuit Court of Appeals must determine whether District Court had jurisdiction of suit, notwithstanding that question was not raised by parties.

2. Suit by Delaware citizen against citizens of California and Nevada for specific performance of agreement to assign inventions was not suit under patent laws or any laws of the United States, but was suit of civil nature in equity between citizens of different states which was not within jurisdiction of District Court unless matter in controversy exceeded jurisdictional amount (Jud. Code §24, as amended, 28 U. S. C. A. §41).

3. Test of District Court's jurisdiction is value of right sought to be protected (Jud. Code §24, as amended, 28 U. S. C. A. §41).

4. Plaintiff had burden of proving jurisdictional facts (Jud. Code §24, as amended, 28 U. S. C. A. §41).

5. Bill of complaint should have been dismissed for want of jurisdiction, in absence of evidence supporting finding that jurisdictional amount was in controversy (Jud. Code §24, as amended, 28 U. S. C. A. §41).”

In *Wilderman v. Roth*, 9 F. 2d 637, (District Court for the Eastern District of Pennsylvania) near the top of the second column of page 637 it appears that plaintiff, after having alleged a proper jurisdictional amount in a case where jurisdiction was preliminarily dependent upon such pleading, that plaintiff could not have recovered more than \$1,600.00 with interest.

Near the bottom of the second column page 637, the Court says:

“[2] While the requisite amount set out in the *ad damnum* clause in a statement of claim, where the facts alleged are sufficient to support the claim of damages, *prima facie* gives the court jurisdiction, yet if, upon further proceedings, it appears as a legal certainty, as in this case, that the plaintiff could not have had any reasonable expectation that she could recover, exclusive of interest and costs the jurisdictional amount, it becomes the duty of the court to dismiss the suit. *New York Life Insurance Company v. Johnson*, 255 F. 958, 167 C. C. A. 250, and cases there cited.”

This decision of the District Court was affirmed by the Circuit Court of Appeals for the Third Circuit, *Buffington, Woolley & Davis*, Circuit Judges, in 17 F. 2d 486.

Other cases supporting the law under consideration are: *Tetters v. Henton*, 43 F. 2d 175; *Furmine v. West Jersey and Seashore R. Co.*, 44 F. 2d 614; *Miller v. First Service Corporation*, 84 F. 2d 680; *McNutt v. General Motors*, 298 U. S. 178; *McNutt v. McHenry, etc.*, 298 U. S. 190.

As part of the prayer of appellant Safeway Stores counterclaim, Safeway Stores prays that “counterclaim defendant, and all persons acting for plaintiff and counterclaim defendants as employees, agents, or otherwise be permanently restrained and enjoined from using the name ‘Safeway,’ or any similar name in the conduct of his said business or otherwise.”

At the end of the first paragraph of the Court’s Opinion Your Honors say: “Stores [Safeway Stores, Inc] did not seek damages for claimed infringement.” This is correct; The appellant Stores did not pray for damages, nor did appellant urge in brief or argument that it was entitled to recover damages.

Was it magnanimity that impelled appellant not to attempt to prove, and to, in effect, *waive damages*. MOST CERTAINLY NOT. BUT WITHOUT PROOF OF DAMAGES, HOW IS THE JURISDICTIONAL STATEMENT OF THE COUNTERCLAIM OF \$3,000.00 EXCLUSIVE OF INTEREST AND COSTS SUSTAINED?

Moreover, it is quite apparent upon the face of the proceedings that appellant stores could not prove any damages whatsoever.

But, before considering such inability of Stores to prove damages, there are first several matters of extreme importance to be noted.

**There Is No Evidence in the Record Prejudicial to the Entire Good Faith of Dunnell in Adopting and Using His Trade-Mark. On the Contrary, the Evidence Shows Nothing But the Best of Faith and Fairness on the Part of Dunnell in Adopting and Using Said Trade-Mark.**

We get a strong impression from reading the Court's Opinion that in adopting the name Safeway for his toilet seat covers Dunnell was leaning upon the good will and advertising of Safeway Stores, Inc.

Dunnell [Tr. D. Q. 13 of Dunnell's deposition] testifies that he adopted and first used his said trade-mark Safeway in October 28, 1933, and explains how he fixes the date, concluding that he is very certain of that date.

Starting in 1926 to gain control of grocery stores in this state (by acquiring stock—as a holding corporation a matter of importance to be discussed later) it might seem strange that Dunnell did not hear of any such store by the name Safeway until after his first adoption and use of



said trade-mark. At Tr. 359 (bottom of page) Dunnell testifies that he had not heard and did not know of any grocery business being conducted under the name Safeway at the time in 1933 when he first adopted and used said name. At the bottom of Tr. 373 Dunnell testifies that he first came to California in 1928. Whereupon counsel, admitting that Dunnell could not know what happened in 1926 in this locality, inquired: "but you cannot say it is not possible that you may have patronized a Safeway Store or seen Safeway advertising before you adopted the name?" To which Dunnell answered: "I would say at that period in my life I was not patronizing grocery stores at all; that I probably had my wife do all marketing.  
\* \* \*"

Consider the situation of Dunnell: He had adopted, used and was the owner of his trade-mark



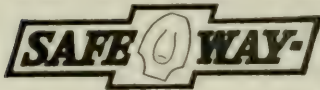
in every state in which he then intended, and later did, distribute his Safeway covers. He knew he was distributing a product under his own fictitious name, Sani-Gard; that he was not advertising in mediums accessible to grocery customers, that he was not selling to grocery customers, but was distributing among a special class of purchasers for distribution *gratis* to users of a public service. Stores were not then, nor have they before or since carried nor distributed any covers under any name. These circumstances strongly appearing on the trial the District Judge at Tr. 155 ( $\frac{1}{2}$  way down the page) was impelled to remark:

"I am not trying to prejudge this case, but it is difficult for me to see how a great organization like this company can be so concerned about a little piece



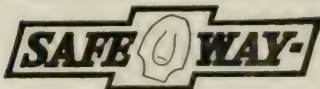
of paper used on a toilet seat and how it affects this enterprise. Surely if I went into a washroom in a hotel to take care of my wants in a toilet I am not concerned whether a piece of paper has the word 'Safeway' on it, nor would I identify it with any such institution as the Safeway Stores, Incorporated. It seems to me to be kind of a tempest in a teapot, and that is why I cannot understand [61] why there should be any great objection to the plaintiff using a simple term like this in connection with this piece of paper that is used in a toilet."

Still on this matter of fairness and good faith on the part of Dunnell: If the Court will look at Tr. 190, it will be noted that Dunnell's trade-mark



has between the two words the pictorial representation of a toilet seat cover, which as we have seen, has never been dealt in by Stores—*such limiting the trade-mark to toilet seat covers.*

Now, of course, this point is not material except as showing that there was no bad faith or unfairness on the part of Dunnell on adopting and using his trade-mark. He had not leaned upon the reputation of Safeway Stores in so doing; but if he had leaned on any such reputation it would not in the least have militated against his title, possession and right to use of his trade-mark



including its picture of a toilet seat cover *as a trade-mark* under the laws of the State of California.

**Defendant-Appellant's Waiver of Damages, Its Failure to Even Attempt to Prove Any Damages Whatsoever, Not Only Defeats This Court's Jurisdiction on the Counterclaim, but Also Annihilates Jurisdiction on Matters Opposing Federal Registration, and Entitles Dunnell to the Order of This Court Authorizing the Commissioner to Grant Such Registration.**

We have always strongly insisted that Stores could not prove any damages whatsoever, present or prospective. Events now to be considered shows the soundness of our said insistence.

In the first place, we remind that proof of damages is of the GRAVAMEN of a proceeding in opposition to federal registration. The law requires opposer to state in his opposition that he *believes* he will be damaged by the registration; but such allegation of belief no more supports the jurisdiction to deny registration than the statement of amount of \$3,000.00, exclusive of interest and costs, sustains jurisdiction in a case based upon such jurisdictional amount.

But is there any possible inference to be drawn from anything in the record of this case that, while not being able to prove the jurisdictional amount to sustain its counterclaim, there was some damage present or prospective to sustain the opposition?

Now, for a clear statement of what Stores has suggested as a basis for some such damages:

At Tr. 185 counsel for Stores states his understanding that the evidence in the case applies to both the counterclaim and to the complaint—with which we agree. It seems to follow that if Stores were unable to prove any damages on the counterclaim, this evidence or circum-

stance also applied to Dunnell's complaint (request for registration) under such agreement; and that it admits that Stores cannot prove any damages on such Dunnell's complaint.

But, specifically, how can we discover any theory whatsoever upon which to base any proof or inference of damage:

At Tr. 116 opposing counsel Johnston says: "This is, [Dunnell's use] as I say, a small use and it is hard to see how this use has damaged us in this volume of business." We agree with counsel that it is not only *hard*, but insist further that it is IMPOSSIBLE.

BUT A VERY CLEAR STATEMENT OF EVERYTHING THE STORES COULD POSSIBLY RELY UPON to prove or raise an inference of damages is found in the statement of Drummond Wilde, who at Tr. 79 testified that he is a lawyer in charge of the Legal Department of the Oakland Office or Head Office of Safeway Stores and [Tr. 79] has been with the company and its predecessors since February, 1931. At Tr. 122 Mr. Wilde says that as head of the Legal Department he has charge of the company's affairs with respect to opposition of attempted registrations of the name Safeway.

Thus, if anyone *could* know of any possible way or manner of proving damages, Mr. Wilde certainly *should* know.


At the bottom of Tr. 128 appears the following testimony by Mr. Wilde:

"Q. How will Safeway be injured by Dunnell's registration and use of the name 'Safeway'? A. By his use of the name 'Safeway' on toilet seat covers we have no control over his policies or his operations or what he may do, or how he may transact his busi-

ness; even though his business may be transacted properly from time to time, we have no control how it may be transacted over the future. That is something we have nothing to do with, the quality of the product that he manufacturers, or what satisfaction he may give his customers.”

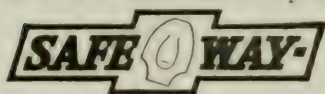
Now, still considering the just quoted “holier than thou” statement of Mr. Wilde: Suppose that an opposer in this trade-mark case should have filed an opposition admitting the facts immediately heretofore considered in the case at bar, reading, so far as of immediate pertinence [following the introductory wording of Safeway opposition, Tr. 193]:

“opposer \* \* \* believes it would be damaged by such registration, such belief being founded on the ground while applicant for registration has always conducted his business in a proper manner [Tr. 67], never having had a complaint [top Tr. 68] and his business policies have been beyond question, always using his own fictitious name Sani-Gard Company [Tr. 176, 328, 329 and 330] in advertising and selling [Tr. 176, top of page] said product under said

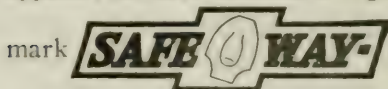
trade-mark  and has never

advertised said trade-mark as such in any advertising medium [Tr. 329, bottom of page] but only explained [Tr. 330, ½ way down page] his use of said trade-mark after first being contacted by a prospective purchaser [Tr. 330] addressing his Sani-Gard Company, such explanation being by letter [Tr. 330, D. Q. 103]; and, at the time of filing of this opposition he has owned and used the trade-mark sought to be registered, selling over 73½ million [Tr. 64 and Ex. Q, Tr. 337] of said product under the trade-mark,

and has only sold them to a special class of purchasers who distributed them *gratis* as a public service [Tr. 342, D. Q. 124] while I, opposer, never manufactured or caused to be manufactured [Tr. 255, X. Q. 51] or sold and which are unsuitable for sale in my stores [Tr. 350 and 351, Dunnell Exhibits S and T], and which I have never even expressed the desire to sell [Tr. 70, top of page]; and while I [Stores] had notice of applicant's use of said trade-mark as so applied [Tr. 71] by the sale and installation of his said product in one of my subsidiary companies, namely, The Lucerne Creamery and Butter Company [Tr. 71], prior to my filing of this opposition [Tr. 72] and acquiesced in applicant's said use; and while there has been no confusion whatsoever as to source of manufacture of said product under said trade-mark



and no one has ever mistaken the source of manufacture and distribution of said product under said name as not being applicant [Tr. 33, top of page; Tr. 63 and Tr. 66] and while I, opposer, had full knowledge of Dunnell's use of said trade-mark before the filing of this opposition [Tr. 72, top of page; this was Dunnell's testimony, but Stores did not deny that Lucerne was their subsidiary]; and while applicant's title to said trade-mark under the laws of the state of California is unassailable [as heretofore fully shown] and while, under the circumstances, it would not be of any benefit to me, opposer, to have Dunnell's registration of his trade-



mark denied; but would do him much damage by depriving him the right to mark his product 'Trade-Mark Registered United States



Patent Office' and would also deny him access to the Federal Courts; and though there is no possible reason why applicant's said policy may change in the future; as he has every interest to continue it, yet, he could, possibly, if he should become insane—and I have no reason to believe he will become insane—change said policy and I, opposer, might be injured by such change, as I, opposer, have no control over the formulation of applicant's policy in the future. I, therefore, suggest that although I do not know of any damages which have or may be caused me by the registration of Dunnell's mark, that the Court imagined some such damage."

Can we imagine that either the Patent Office or *any* tribunal would sustain said opposition-pleading as sufficient? YET THE FACTS, UPON WHICH THE TRIAL COURT'S FINDINGS AND CONCLUSIONS ARE BASED, ARE SHOWN TO BE ENTIRELY CORRECT IN THE FOREGOING CITATIONS TO THE RECORD IN SUCH SUPPOSITIOUS OPPOSITION-PLEADING.

WE MOST RESPECTFULLY SUGGEST THAT, UNDER THE CIRCUMSTANCES, THE TRIAL COURT'S FINDINGS AND CONCLUSIONS ARE OVERWHELMINGLY SUSTAINED, AND THAT THIS COURT SHOULD SO HOLD.

With every right under the common law for the allowance of Federal Registration; and, while refusing to permit registration would seriously affect his right, denying, as it would, Dunnell's right to mark his product "Registered in the United States Patent Office," and would also deny him access to the Federal Courts upon which we have always greatly relied in preference to the State Courts, as more justly deciding cases of this kind, we urge that the equities are certainly in favor of the granting of an order, prayed for by Dunnell, authorizing the Commissioner to grant the registration.



**The Trial Court Before the District Court, From Whose Decision Appeal Was Taken Is De Novo, and the Findings and Conclusions of the Lower Court, Unless Shown to Be Erroneous, Should Be Followed—Not the Findings and Conclusions of the Patent Office Tribunals.**

The jurisdiction of the Court and its scope appears in our statement, Page 1 of the Appellee's Brief, as based upon R. S. U. S. 4915, U. S. Code, Title 35 §63 (applying to patents) and Title 15 §89, which before and after its enactment, has always been construed as making R. S. U. S. 4915 applicable to trade-mark application proceedings.

Title 35 §63 reads as follows:

"63. Bill in equity to obtain patent.—Whenever a patent on application is refused by the Board of Appeals or whenever any applicant is dissatisfied with the decision of the board of interference examiners, the applicant, unless appeal has been taken to the United States Court of Customs and Patent Appeals, and such appeal is pending or has been decided, in which case no action may be brought under this section, may have remedy by bill in equity, if filed within six months after such refusal or decision; and the court having cognizance thereof, on notice to adverse parties and other due proceedings had, may adjudge that such applicant is entitled, according to law, to receive a patent for his invention, as specified in his claim for any part thereof, as the facts in the case may appear. And such adjudication, if it be in favor of the right of the applicant, shall authorize the commissioner to issue such patent on the applicant's filing in the Patent Office a copy of the adjudication, and

otherwise complying with the requirements of law.  
\* \* \*

Title 15, §89 U. S. Code reads as follows:

“89. Appeal from decision of Commisisoner of Patents.—If an applicant for registration of a trade-mark, or a party to an interference as to a trade-mark, or a party who has filed opposition to the registration of a trade-mark, or a party to an application for the cancellation of the registration of a trade-mark is dissatisfied with the decision of the Commissioner of Patents, he may appeal to the United States Court of Customs and Patent Appeals on complying with the condition required in case of an appeal from the decision of the commissioner by an applicant for patent, or a party to and interference as to an invention, and the same rules of practice and procedure shall govern in every stage of such proceedings, as far as the same may be applicable. (Feb. 20, 1905, c. 592, §9, 33 Stat. 727.)

Explanatory Note.—Act Mar. 2, 1929, c. 488, §2 (b), 45 Stat. 1476, substituted ‘United States Court of Customs and Patent Appeals for Court of Appeals of the District of Columbia.’ ”

In the “Notes to Decisions” under Title 15 §89 the case of *Century Distilling Company v. Continental Distilling Corporation*, 23 Fed. Supp. 705, 38 U. S. P. Q. 105 holding, 38 U. S. P. Q. 106, top of second column: “This section, while by its express terms applicable only to patents, has been made applicable to trade-mark by the provision of §9 of the Trade-Mark Act, as amended at (15 U. S. Code §89) citing *American Steel Foundries v. Robertson*, 262 U. S. 209.

If We Had Appealed to the Court of Customs and Patent Appeals From the Decision of the Patent Office, of Course, the Findings and Conclusions of the Patent Office Would Have Been Properly and Specifically Reviewed; but We Did Not Take That Course; on the Contrary, We Instituted an Action Requiring a Trial De Novo. Obviously, on Such Trial De Novo the Findings and Conclusions of the Trial Court Are Those to Which This Court Should Specifically Give Its Attention.

The trial commenced before the District Court March 12, 1947 [Tr. 59] and continued all day through March 12 and 13, 1947. There were voluminous depositions offered in evidence, and the trial concluded [Tr. 187] and was submitted on briefs on that day.

Thereafter, extensive briefs were filed before the trial court, and findings and conclusions thereafter carefully prepared, settled, signed and filed.

We Now Again Emphasize That on Such Trial De Novo It Is the Findings and Conclusions of the Trial Court Which Are Controlling, if Not Shown to Be Erroneous, Certainly Not Any of the Findings or Conclusions of the Patent Office.

All the specifications of alleged error in Appellee's Brief are to alleged errors of the District Court.

In various places throughout this Court's opinion, sought to be reviewed by this petition, your Honors obviously relied upon findings and conclusions of the Patent Office tribunals, such, for instance, as at the bottom of page 3 of said opinion and on pages 4-5-6. Near the bottom of page 7 of said opinion the Court again relied upon findings and conclusions of the Patent Office, and in

the second paragraph, page 8 of the opinion the Court relies upon asserted inferences of the Patent Office Examiner.

Again, at the middle of page 9 of its opinion, this Court says in italics, "the decision of the Commissioner of Patents is not overcome by evidence before the District Court." Here the Court again relies upon the findings of the Patent Office. The District Court's findings and conclusions are based not only upon evidence before the Patent Office but on new and additional evidence. Both parties on this trial *de novo* had the opportunity to present other and additional evidence in support of the depositions filed in the Patent Office. Appellant did not present any pertinent evidence offering any further support to such Patent Office decisions, while appellee Dunnell supplemented, repeated and offered evidence, which we earnestly believe should have decided the case in Dunnell's favor.

**We Have Repeatedly Urged That Damages Are of the GRAVAMEN in an Opposition, and, of Course, the Same Rule Applies in This Trial de Novo. The Patent Office Has Consistently ALWAYS Required Proof of Some Damages to Sustain an Opposition.**

One of the strongest and clearest cases applying to this rule is the case of *Safeway Stores, Inc. v. Southern Independent Oil & Refining Co., Inc.*, decided by the Commissioner of Patents January 8, 1941, reported 48 U. S. P. Q. 220, near the bottom of the second column, page 220 (except for the four words in brackets), the Commissioner says:

"Safe Way, however, is an expression of such commonplace significance in the language that its use in association with the other unrelated products would not, in my opinion, be likely to suggest opposer to the mind of the public. Opposer does not deal in [paper toilet seat covers] nor would purchasers expect to find merchandise of that character in a chain grocery store. It thus appears improbable that applicant's use with these particular goods of the mark it seeks to register would confuse the public to opposer's injury."

Now, we have the record in the *Southern Independent Oil* case before us while writing this petition, and the evidence in the case at bar is much stronger than the evidential showing in the oil case; that is to say, each of the allegations of the immediately foregoing quotation and its application to the case at bar, is, by evidence and admissions in this case, shown to be unquestionably correct.

Of course, it could have been that Safeway Stores, Inc., sold lubricating oil; but apparently in the *Southern Independent Oil etc.* case under consideration it did not appear that it had theretofore sold said product; while the case at bar is much stronger in that, as repeatedly heretofore stated, neither any of the 2300 stores in which appellant owned stock nor appellant ever sold or offered for sale or could sell or offer for sale any such products as toilet seat covers BECAUSE NONE OF THEM EVER HAD IT TO SELL.

That Transcript 122-3, Drummond Wilde, who as we have seen, is the head of the Legal Department for Safeway Stores, Inc., and also is in charge of trade-mark oppositions involving the use of the name "Safeway" testifies, mentioning a number of cases, in some of which he



was successful and in others in which he was not successful.

The first [bottom Tr. 122] of these involved "Safeway 1450" applied to sanitary napkins which Safe Way Stores, Inc., *did* sell. Safeway Stores opposed the opposition successfully, but this, of course, was because they distinctly had been selling sanitary napkins and, of course, lost sales and were therefore in a position to prove damages.

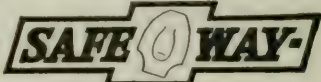
The witness then referred to the proceeding to the registration of "Safeway" for the use of gasoline, motor oil and greases stating that such opposition proceeding was *not* successful and the registration of the trade-mark was allowed. We have heretofore considered this last case fully.

Still another case mentioned about two-thirds down the page Transcript 123 was a case involving the use of Safeway for cleaning fluid, again Safeway Stores, Inc., lost that opposition proceeding, of course, by not being able to prove damages. In each of the successful cases of Safeway Stores, Inc., it was in a position to prove damages by the lost sales. In the case at bar, as we have repeatedly pointed out they have admitted that they could not—did not have any way to prove ANY DAMAGES WHATSOEVER.

Let us suppose for the sake of argument that a prospective purchaser or purchasers, remembering the trade-mark "Safe Way," should forget or overlook the source of manufacture of appellee's product as the Sani-Gard \* \* \* Company. Assuming that such purchaser or purchasers applied to one of the Safeway Stores, Inc., for "Safeway Way" covers (mistakenly supposing they were put out by appellant or one of its subsidiary companies). Let us assume (contrary to the established facts

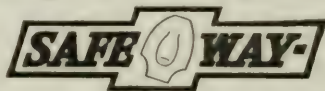


in this record) also, for the sake of argument, that such confusion was a *frequent occurrence* during the eleven years during which Dunnell manufactured and sold said

product under said trade name The logo consists of the word "SAFE" in a bold, sans-serif font, followed by a stylized pictorial representation of a toilet seat cover, and then the word "WAY-" in the same bold, sans-serif font. The entire logo is enclosed within a thick, black, double-lined border that follows the shape of the text and the pictorial element.

Of course as neither appellant nor any of its subsidiaries ever stocked or even contemplated paper seat covers for sale, nor manufactured or caused to be manufactured such product, nor advertised or offered for sale any toilet seat covers, all the Safeway Stores, Incorporated, could have done under the circumstances would have been to tell the prospective purchaser that he was mistaken and that toilet seat covers were not among the items they had ever had or ever expected to have for sale. COULD THAT HAVE DAMAGED APPELLANT IN ANY WAY?

In the first paragraph of his dissenting opinion, His Honor, Judge Healey, reminds that Dunnell's mark does not consist merely of the words "Safe Way" but comprises a composite mark with the words "Safe" and "Way" separated by a pictorial representation of the seat cover the word "Way" being followed by a dash; and we also remind that the mark comprises the black outline surrounding the element just mentioned, thus:



Judge Healey also remarks that at the bottom of page 13 of the dissenting opinion, citing *Steel Foundries v. Robertson*, 269, U. S. 372, 380, that "there is no property right in the trade-mark apart from the business or trade in connection with which it is employed." Again, near the bottom of page 17 of said dissenting opinion, Judge Healey reminds:

“The words ‘Safe Way’ with the representation of a toilet seat cover interposed between them constitute a distinctive mark giving to the eye an impression substantially unlike that given by the single word ‘Safeway.’ It comprises a symbol appropriately descriptive of a sanitary method; and I am able to discover in this record no sufficient reason for debarring appellee from the use of the symbol, or from having it registered if he thinks registration helpful. He appears to have traded on nobody’s reputation but his own; and there is not the slightest showing that his use of the symbol in his peculiar and praiseworthy enterprise had posed or is like to pose any threat to the good name or business of Safeway Stores.”

We earnestly urge that Judge Healey correctly appraises the situation: There is no damage to sustain the opposition; there is no confusion or misleading of prospective purchasers; there is no competition between the parties to this suit relative to anything that Dunnell has done in the premises.

**Appellant Safeway Stores, Inc., Has Been Guilty of Inexcusable Laches Which Should Estop Said Appellant From Now Prosecuting the Opposition to Dunnell’s Registration.**

We did not, in our brief before the Court, sufficiently call attention to this defense of laches and estoppel. We omitted to explain reliance upon use by the Lucerne Creamery and Butter Company, subsidiary of appellant Safeway Stores, Inc.

At two-thirds down the page Transcript 70, Dunnell testifies that defendants Safeway Stores, Inc., had notice prior to the opposition proceeding of his extensive use of his trade-mark, by reason of the fact that in one instance,

he, Dunnell, installed some of his Safeway covers in one of their subsidiaries [near the bottom of Tr. 71]; that such installation was in the Lucerne Creamery and Butter Company and that he, personally, actually installed in said subsidiary company toilet rooms; and that they were installed in his cabinets marked Safeway and his Safeway covers were furnished and used in said cabinets and installed therein. This installation, he testifies at Transcript 75 was in said Lucerne \* \* \* Company, on the corner of Alameda and Vernon in Los Angeles and consisted of 6 to 8 [bottom of Tr. 75] Safeway dispensing cabinets.

At Transcript 76 he says he was directed by the superintendent or whoever it was in charge of the building who pointed out to him the restrooms in which the installations were to be made.

NOW, IT IS IMPORTANT TO NOTE THAT NOWHERE IN THE RECORD HAS SAFEWAY STORES, INC., OR ANYONE ELSE DENIED THAT SAID LUCERNE COMPANY WAS ONE OF THEIR SUBSIDIARIES AS TESTIFIED BY DUNNELL; ON THE CONTRARY, DRUMMOND WILDE SUBSTANTIATED THAT IT HAD SUCH A SUBSIDIARY SAYING THAT AMONG THEIR MANY MANUFACTURING ACTIVITIES WAS THE PROCESSING OF BUTTER, BOTTLING OF FLUID MILK, CREAM, CHEESE AND OTHER DAIRY PRODUCTS. (These manufacturing activities make "Stores" a misnomer.)

About two-thirds down Transcript 75 Dunnell says such installation was in the month of March, 1942. Safeway Stores, Inc., notice of opposition was filed [Tr. 197] April 6, 1944, over two years after said Lucerne installation. Dunnell testifies [Tr. 70] one-half way down page; and this is not denied at any place in the record, that he

never had any complaint from Safeway Stores because of his use of his said trade-mark.

Thus, we see that appellant defendant Safeway Stores had full knowledge of Dunnell's use of his said trade-mark long before the filing of the opposition and never objected to or complained of said use.

This should, we submit, establish unassailably our defense of laches and estoppel.

**There Are a Few Miscellaneous Points to Which We Desire to Call the Court's Attention — Some of Them Entirely Overlooked in This Court's Opinion.**

One of these relates to a matter fully developed on page 23 of appellee Dunnell's brief, relating to the commonplace significance of the word "Safeway" as a trade-mark. We there said:

We have heretofore, under the present heading quoted from *Safeway Stores, Incorporated, v. Southern Independent Oil & Refining Company, supra*, "\* \* \* 'Safeway' however, is an expression of such commonplace significance in the language that its use in association with other and unrelated products would not, in my opinion, be likely to suggest opposer to the mind of the public." We have stated that there was strong additional evidential support in the record of the present case for such statement. We now refer to such evidence:

At Dunnell record [Tr. 357], there are offered and received in evidence as Dunnell Exhibits W-1 through W-16 (brought up as physical exhibits), 16 prior registrations of the name "Safeway" as applied to various products, such as ladders, scaffolds, oil, gasoline, steel wool, heating and ventilating apparatus, razor blades,

photographic envelopes, wall coverings, rubber articles to prevent disease, suppositories, garment bags, tire patches, cellulose sheets, and containers for baby chicks, all of which show the commonplace significance of the word "Safeway."

Most important, also, as shown by this exhibit, is the circumstance that Dunnell Exhibit W-8, as applied to photographic envelopes (paper products), was to "Safe Way Sales Corporation"; and that Dunnell Exhibit W-11, as applied to suppositories registered September 5, 1933, is stated as distributed by "Safeway Laboratories, Oakland, California" (the city of the principal place of opposer); and that Dunnell Exhibit W-13, as applied to tire patches, was registered by the "Safeway Tire Patch Manufacturing Company" of South Gate, California; and that Dunnell Exhibit W-15, "Safeway Cord" as applied to cellulose sheets, was granted to "Safeway Products Corporation" of New York, N. Y.

In *Arrow Distilleries, Inc., v. The Globe Brewing Co.*, 48 U. S. P. Q. 157, a decision by the Circuit Court of Appeals for the Fourth Circuit, at the middle of the first column, page 160, commenting upon the case of *American Foundries v. Robertson*, 268, U. S. 372, the Court says:

"The Supreme Court held that registration should have been granted because the word had been used so many times in so many different ways that it was no more calculated to denote the defendant corporation than any of the other corporations which had embodied it in their names."

In the opinion (p. 384), examples of other words of similar character, such as Anchor, Champion, Pride, Star, etc., were given.



By way of a numerical summary, we remind that there are twenty-three distinct corporations mentioned in paragraph 1 of the opposition [Tr. 193], which corporations are now dissolved, which operated for many years—sixteen years from the first—under the name of “Safeway Stores, Inc.,” and we have listed immediately above four completely distinct business organizations having as part of their name the word “Safeway,” and we have also listed sixteen “Safe Way” registered marks, all antedating in registration dates by many years opposer’s acquirement of title in December, 1942, of the separate Safeway Stores, incorporations in the various states. Thus, there are twenty-eight business organizations listed as having used the word “Safeway” as part of their business names, and there are sixteen registered marks, aggregating forty-four distinct prior uses of the word “Safeway” in the United States before opposer acquired title. Also, remember that there were TWENTY-FIVE HUNDRED STORES (not manufacturing establishments) (paragraph 1 of the Notice of Opposition) which separately used the name “Safeway” prior to the acquirement by opposer of the title in 1942. Accordingly, we submit under this head that within the meaning of the language of the Court in *Arrow etc. v. Globe, etc.*, quoted *supra*, the word “Safeway” has been used so many times and in so many different ways that it is no more calculated to denote the opposer (appellant), Maryland corporation, than any other corporation or business organization, or proprietor of any of the sixteen registered trade-marks, Dunnell Exhibits W-1 through W-16.



Another, and this is totally irrelevant, relates to what are called "travel-aid units, or covers." At the bottom of Transcript 143 Mr. Johnston remarks that the "travel-aid unit is in packages for re-sale by stores perfect and popular items if displayed for sale to the traveling public."

BUT IT IS NOT OF RECORD THAT OPPOSER, NOR ANY OF ITS STORES EVER SOLD A SINGLE ONE OF SUCH COVERS, WHICH SPEAKS LOUDER THAN WORDS THAT THEY WERE UNSUITABLE FOR RE-SALE BY RETAIL STORES.

Furthermore, said opposing counsel admits [Tr. 144, top] that publications describing said travel-aid units were issued during the period of 1939 to 1945—very much too late—after Dunnell had distributed hundreds of thousands of covers without protest from anyone.

Still further on this point at Transcript 173 Dunnell testifies that about ten years ago (10 years before this trial which began March 12, 1947) [Tr. 58] he made a very small quantity of covers for re-sale in stores, and that he has attempted ever since that time to dispose of said covers, but has been entirely unsuccessful, and still has a few of said covers on hand. How many did he have on hand? At Transcript 174, he says he only made 20 or 30 of them.

Manifestly, his efforts to dispose of them over such a period shows that they are not saleable items in retail stores.

**The Contention That Morton Company Registered the Word "Safeway" as Applied to Cabinets Is Irrelevant. Furthermore, the Trade-Mark Is Admittedly the Property of Dunnell.**

It is true that the Morton Manufacturing Company of Chicago [Tr. 165] had an arrangement with Dunnell whereby he sold paper toilet seat covers [not marked Safeway] as well as the dispensing cabinets. This agreement was that the Morton Manufacturing Company would sell to no one else.

Near the bottom of Transcript 165, Dunnell testifies that although such contract which is in evidence says something to the effect, that arrangement was never carried out. At the bottom of Transcript 165 Dunnell explains:

"In other words, the manner in which they proposed that I carry on that business was not satisfactory in this particular territory. So we never carried it out in that way, and we did carry on business on the basis that I as an [115] independent contractor buying merchandise from them, paying for it and reselling it at prices which I established."

At the top of Transcript 166 Dunnell denies that said Morton Company had at any time suggested to him the adoption and use of the trade-mark "Safeway" as applied to said covers. Explaining [near top of Tr. 163] how he happened to adopt the trade-mark "Safeway" Dunnell testifies:

"Along in the latter part of 1933 the Morton Company had a toilet seat cover which they were proposing to put on the market under the trade name of 'Kleen-Seat.' They sent me samples of that particular product, both as to respective paper covers and

dispensing cabinets, and from my experience in the seat cover business up to that time and my experience with the 'Sani-Gard' cover which I had started to first sell, I could readily see that this cover which they were going to attempt to market under this trade name 'Kleen-Seat' was not satisfactory, both with respect to the paper toilet seat cover or with respect to the dispensing cabinet; and also with respect to the trade name that they had decided to use. So I wrote to them to that effect saying that I did not feel that the cover that they had designed was satisfactory. I don't feel that the dispensing cabinet that they had [116] submitted as a sample was satisfactory and I was not at all satisfied with the trade name 'Kleen-Seat' . . . ."

After interruption the witness continues his answer [Tr. 168] as follows:

"So, as a result of my objections I sent proposals in my correspondence that I much preferred to use another trade name. I preferred to redesign the type of cover and dispensing cabinet and as a result of that I sent them orders for a new type of dispensing cabinet which I called—asked them to label with the trade name 'Safe Way.' I also suggested a change in the manner of making the toilet seat covers which they had submitted as samples as not being satisfied, and asked them to be labeled 'Safe Way.'"

The witness then refers to correspondence with said Morton Company, and said correspondence comprising three letters are in evidence [Tr. 171—as Plaintiff's Exhibit 6]. At Transcript 172 [beginning top of page] Dunnell makes several proposed minor corrections in his prior testimony, saying:

“In connection with my deposition taken February 28, for Civil Action 26,230-G, I should like to make one correction, and also clarify my testimony in respect to my past relationship in the seat cover business with the Morton Manufacturing Company. The correction is at lines 6 and 7 on page 65. Instead of this answer reading as it does, it should have read:

“‘No, my agreements that I had had with Morton were not a royalty basis.’

“He says that should have been, ‘No, my agreements I had with Morton were not royalty, but on a territorial arrangement.’

“Then he goes on and says, ‘In order to clarify my testimony particularly in regard to the questioning beginning on the last line of page 72, I should say because of your repeated [122] references to the word “royalty,” beginning at page 6 of my deposition to page 72 and your usual correcting of it to substitute “sum of money” instead of “royalty” indicated very clearly that you have the impression that . . . ’”

At Transcript 173 [middle of page] Dunnell testifies that said Morton Company never at any time protested to him in any way of his use of the trade-mark “Safeway” either for cabinets or seat covers.

While it is true that Morton Company *did* register the name “Safeway” for cabinets, Dunnell testified that [Tr. 176] that it was not until 1942 that he first heard of the registration by the Morton Manufacturing Company of the name “Safeway” as applied to cabinets.

Thus, it is clear that the registration by Morton Company of said name is entirely irrelevant.

It is also clear from Dunnell's testimony and from Plaintiff's Exhibit 6 (letters) that far from protesting, Morton Company freely acknowledged that the trade-mark "Safeway" was Dunnell's property.

**Dunnell's Covers in Issue Are Patented. Opposer Safeway Stores, Inc., Could Not Manufacture and Sell Dunnell's Said Covers Without Infringing Said Patent; No More Than They Could Use His Trade-Mark as Such Without Infringing Said Trade-Mark, Under the Common Law in Force in Every State of the Union.**

At Transcript 316 Dunnell testifies that he is still the owner of the Letters Patent of the United States marked as Dunnell's Exhibit K.

At Transcript 325, Dunnell testifies that his covers in issue in this proceeding have been marked patent No. 2,025,941, constructive notice to everyone, and upon which suit for infringement could be based if it happened that there was no actual notice of said grant or issuance.

Manifestly, Safeway Stores could not manufacture and sell said covers without infringing said patent; and, incidentally, as above mentioned, they could not use the trade-mark "Safeway" as such without infringing Dunnell's trade-mark.

### Conclusion.

(1) Nothing can be clearer that under the law this Court cannot grant an injunction against Dunnell restraining him from the use of his trade-mark; as to do so would be a violation under the laws of the state of California; and equally important is the fact that this Court found that opposer-appellant had not proven, nor attempted to prove, the necessary jurisdictional amount of \$3,000.00 exclusive of interest and costs.

(2) Failure to prove or attempt to prove any damages whatsoever, annihilates Safeway Stores', Inc., opposition to the registration by Dunnell of his trade-mark, as such, applying to toilet seat covers, as proof of damages are under all authority, necessary to sustain such opposition.

(3) Appellant Safeway Stores, Inc., has been guilty of inexcusable laches which should estop said appellant from maintaining this opposition, by reason of the fact that it had, long prior to the filing of the opposition in the Patent Office, known of said use by one of their subsidiaries, the Lucerne Creamery and Butter Company and, far from objecting, *admitted Dunnell's right* by ordering and having installed in said subsidiary the Dunnell Safeway covers, now objected to.

(4) Safeway Stores, Inc., cannot use appellee Dunnell's trade-mark as such without infringing said mark, and this in all states of the Union; nor can said appellant manufacture and sell said seat covers without infringing Dunnell's patent. True, appellant Safeway may enter the



business of making and selling toilet seat covers, in their grocery stores (which they have never done) and when so sold they are *grocery* items, but when done as part of their manufacturing activities this makes the part of their name "Stores" a misnomer. When appellant Safeway Stores sells to a special class of purchasers for distribution *gratis* to the public, they are not selling to their grocery customers, but are copying Dunnell's method of distribution.

As judges and attorneys, we are all endeavoring to do justice—to maintain respect and confidence in our federal courts. We urge that justice demands that the counterclaim be dismissed and that Dunnell's prayer for registration be granted.

Respectfully submitted,

JOSEPH F. WESTALL,  
EDWARD F. WESTALL,

By

*Joseph F. Westall,*

*Attorneys for Petitioner.*

WESTALL AND WESTALL,  
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*Attorneys for Petitioner.*

**Certificate of Counsel.**

I, Joseph F. Westall, the attorney who tried the case in which the foregoing Petition for Rehearing is filed, and who prepared all briefs and made all arguments in the District Court and in this Court, do hereby certify that in my judgment the foregoing Petition for Rehearing is well founded and that it is not interposed for delay.

*Joseph F. Westall.*











